
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

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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

Secretary	Ms Catherine Cornish
Inquiry Secretary	Mr David Monk (from 16/03/04) Dr Andrew Brien (until 24/02/04)
Administrative Officer	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. ¹
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. ²
BAG	Broadband Advisory Group
CAGR	Compound annual growth rate

¹ 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>.

² *ibid.*

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. ³
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. ⁴
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

³ *ibid.*

⁴ 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* (6th 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.) ⁵
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 ⁶
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. ⁷
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

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

⁶ Now known as the Australian Government Information Management Office.

⁷ 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).

Introduction

Setting the scene

- 1.1 Shortly before the Australian nation became a reality in 1901, four thousand people crowded into the Melbourne Town Hall to experience a state-of-the-art presentation. Entitled *Soldiers of the Cross*, the program of lantern slides, hymns, and sermons was filled out by the new medium of film.¹
- 1.2 By 1906 Australians had become cinema innovators, producing what was claimed to be the first continuous narrative feature film in the world, *The Story of the Kelly Gang*.² The cinema became so popular that in 1927 the *Royal Commission on the Moving Picture Industry in Australia*³ reported there were 1,250 picture theatres in Australia, £25,000,000 was invested, 20,000 people were employed in the industry and ‘annual attendances at picture shows were estimated to be 110,000,000’, in a nation of little more than six million people.⁴

1 G. Shirley & B. Adams, *Australian cinema: the first eighty years*, Angus & Robertson: Sydney, 1983, p. 13.

2 *ibid.*, p. vii.

3 Parliamentary Paper 227 of 1926-1928.

4 Australian Bureau of Statistics, *Australian Demographic Trends*, Commonwealth of Australia: Canberra, 1997; catalogue no. 3102.0.

- 1.3 In the century that followed, the Australian film industry has gone through cycles of boom and bust.⁵ This has led to ongoing attempts to find effective and appropriate policy settings: a quest that has recurred often in the history of motion picture production and distribution in Australia. For example, since the 1910s, there have been 33 different types of assistance initiatives for the Australian film industry.⁶
- 1.4 The most significant development in policy occurred in the early 1970s. From that time sympathetic bi-partisan policies by successive federal and state administrations have fostered Australian stories for Australian (and international) audiences, attracted international productions and sustained a high-level skills base. As a result, the Australian film industry has enjoyed a renaissance of sorts over the past 30 years.
- 1.5 Despite these policies, the foreign domination of Australian cinema screens has remained. In 1927, foreign films dominated Australian screens, with over 90 per cent of them coming from Hollywood and only 5 per cent from Australia.⁷ In 2003, according to the Australian Film Commission (AFC), 9 per cent of films screen in Australia originated in Australia, with 65 per cent coming from the United States of America.⁸
- 1.6 The number of foreign-produced films released in any one year outnumbered those produced domestically. But the 1927 *Royal Commission* suggested another reason for the success of foreign films: 'These pictures are of a very high standard of production generally, and the Australian public taste will continue to demand this high standard'.⁹ In 2003, the AFC observed: 'Whatever happens at a corporate level, it is still the product that drives the business'.¹⁰ The failure of Australians to consistently produce film products that audiences want to watch (in addition to fewer

5 2003 appears to have been a 'bust year' for Australian film and television judging from newspaper reports that have suggested a 'crisis' in the film and television industry. See for example, G. Maddox, 'Film industry hits eight-year low', *Sydney Morning Herald*, 18 November 2003. This has been reflected in evidence to this inquiry. For example, see Ambience Entertainment et al, submission no. 100, Allanbank International, submission no. 57, Cr J. Grew, Gold Coast City Council, *Transcript of Evidence*, 25 July 2003, p. 3 and Mr J. Lee, Cutting Edge Post, *Transcript of Evidence*, 25 July 2003, p. 16.

6 D. Gonski, *Review of Commonwealth Assistance to the Film Industry*, Commonwealth of Australia: January 1997, p. 99.

7 The *Royal Commission on the Moving Picture Industry in Australia*, Parliamentary Paper 227 of 1926-1928, p. 15.

8 AFC, *Get the Picture Online*, 'What Australians are Watching', viewed 7 May 2004 at <http://www.afc.gov.au/gtp/wcfilmxcountry.html>.

9 *Royal Commission on the Moving Picture Industry in Australia*, loc. cit.

10 AFC, 'The cinema industry in Australia: Structure and key players, 2002' in *Get the Picture Online*, viewed at <http://www.afc.gov.au/gtp/wcessaystructure.html> on 7 January 2004.

foreign productions being made in Australia) is said to be the basis of the apparent lack of success recently for Australian films and the downturn in the local industry.¹¹ While Australians remain enthusiastic cinema patrons and eager adopters of new entertainment technologies,¹² they will not support unappealing programs.

- 1.7 Australian product makers are still eager to move into new areas of opportunity. The Committee was told, for example, that in the 1980s, Australia was at the forefront of another technological revolution: the development of the first commercial computer games.¹³ Australian game producers and game products compete in a global market, dominated by producers and products from the United States. As is also the case for film, Australia's game producers and their products will be able to compete on a global market only with the support of sympathetic policies. However, this inquiry revealed that, unlike the local film industry, Australia's game industry receives modest levels of state and federal government support.

The policy task

- 1.8 A question facing Australia's audio-visual industries since 1927 to today, has been how best to ensure that Australia has a viable audio-visual industry that tells enticing Australian stories to Australian audiences, and also wins production opportunities and audiences in a global market. The evidence to this inquiry indicated that, despite the reports and initiatives over the years,¹⁴ the fundamental requirements for Australia's film industry and electronic game industry have remained the same as those identified by the 1927 *Royal Commission*:

- capital;
- suitable stories;
- equipment and personnel; and

11 S. Hall, 'Oz films hard to swallow', *Sydney Morning Herald*, 8 November 2003; V. Roach, 'Have Aussie film-makers lost the plot', *Daily Telegraph*, 22 August 2003; D. Dale, 'Dramatic tension', *Sydney Morning Herald*, 31 October 2003.

12 The AFC reports that in 2003 there were 90 million cinema admissions. The average between 1998 to 2003 was 89 million. As well, in 2002, 89% of homes had a video cassette recorder while 24% had a DVD player. AFC, *Get the Picture Online*, viewed 14 May 2004 at <http://www.afc.gov.au/gtp/fastoverview.html>.

13 Mr M. Bishop, Multimedia Victoria, *Transcript of Evidence*, 28 August 2003, pp. 28–29.

14 See Mr D. Gonski, *Review of Commonwealth Assistance to the Film Industry*, January 1997, for a listing of various reports and inquiries, over many years.

- sufficient avenues of distribution.¹⁵

- 1.9 The task that faced this Committee is to identify the policy initiatives the Australian Government can implement, that will nurture the Australian film and game industries in an increasingly globalised economy. The initiatives aim to position Australia's film and game industries to take advantage of the opportunities emerging in the 21st century, but avoid production of games and films that will not attract sufficient audiences.
- 1.10 The evidence suggested there are substantial opportunities for our audio-visual industries.¹⁶ The evidence also suggests success lies in highly trained, highly skilled and creative professionals, telling compelling stories, developing engaging games and producing what the market wants, rather than in increasing levels of protection and subsidy. Capital will follow and the problems of distribution will be overcome as technology advances and linkages and reputations develop. The policy recommendations made by the Committee are based around these considerations.

The inquiry

- 1.11 On 1 April 2003, the then Minister for Communications, Information Technology and the Arts, the Senator Hon. Richard Alston, asked the Committee to inquire into Australia's film, animation, special effects and electronic games industries.¹⁷ Apart from an examination of the present state and rationale for the film and game industries, the terms of reference invite the Committee to address significant matters of public policy and to make recommendations on the most appropriate policy responses to the challenges and opportunities facing the audio-visual industries.

Conduct of the inquiry

- 1.12 The inquiry was advertised nationally in *The Australian* on 16 and 30 April 2003 and submissions were invited from the general public. In addition, over 204 invitations to make submissions were sent to interested individuals and organisations. As a result, 104 submissions, and 121

15 The *Royal Commission on the Moving Picture Industry in Australia*, op. cit., p. 12.

16 This will be considered in detail in Chapter 4.

17 The detailed terms of reference appear on p. xi of this report.

exhibits were received. The Committee held 13 public hearings and conducted 15 inspections.¹⁸

Scope of the inquiry

- 1.13 The Committee has taken a wide view of the media covered by the terms of reference. 'Film' is regarded as including not only motion picture features shown in cinemas, but documentaries shown in cinemas, and programs for free-to-air and subscription television broadcast, such as documentaries, drama programs, television feature films, animated productions and children's programs. All formats (mini-series, feature film, one-off programs, video and traditional film) are encompassed by the terms of reference, as is animation of all types, whether traditionally drawn characters or those that are now computer generated.
- 1.14 Sometimes 'special effects' is interpreted narrowly to refer to 'practical effects', such as lighting and smoke, whereas 'visual effects' refers to computer generated or assisted effects.¹⁹ The Committee proposes to use 'special effects' as most audiences would understand it: to refer to effects that are added to a scene to augment or enhance what is being photographed or to create the scene in part or entirely synthetically. 'Special effects' then refers not only to smoke, lighting, prosthetics, models, and simple image manipulation, but also to the processes of computer generated or augmented image manipulation and creation.
- 1.15 'Electronic games' refers to games that are played using an electronic device, or 'platform'. There are a number of different platforms: personal computers that play CD-Rom or DVD-Rom games, or both; consoles, such as the Sony Playstation2, the Microsoft Xbox and the Nintendo Game Cube. There are also handheld devices, such as the Nintendo GameBoy, mobile telephones or personal digital assistants (PDAs) that are used to play electronic games.²⁰ 'Electronic games' also refers to the games played over the internet, using personal computers or consoles, in which many thousands of people participate. These are the so called massively multiplayer online games (MMOG).²¹

18 See appendixes A-C for details.

19 This distinction was drawn to the attention of the Committee by Mr C. Schwarze, CEO/VFX supervisor of Complete Post (communication with secretariat, 14 July 2003.)

20 Allen Consulting Group, *Game Industry Development Strategy*, 8 October 2003, p. 4.

21 Mr R. Straw, Multimedia Victoria, *Transcript of Evidence*, 28 August 2003, p. 32; 'Micro Forté demos big world: New platform revolutionizes online gaming by allowing up to 500,000 players to co-exist on a single shard,' viewed at <http://www.microforte.com/news/pr1.htm> on 8 January 2004.

Structure of the report

- 1.16 In Chapter 2 the Committee addresses terms of reference (a) and (b). The current size and scale of Australia's audio-visual industries is examined, as well as the economic, social and cultural benefits of these industries, insofar as they relate to the film industry. The size, scale, and benefits of the electronic games industry are addressed in Chapter 3. Also in that chapter is a brief review of the quality of the information that is available on the film and electronic games industries.
- 1.17 In Chapter 4, the report examines the future opportunities for further growth of the film and game industries. This involves an examination of the application of advanced digital technologies, online interactivity as well as broadband: term of reference (c).
- 1.18 The future of Australia's creative industries will be built on the capacity to develop, grasp and use new technologies. In Chapter 4, the report also examines the current and likely future infrastructure needs of the audio-visual industries, including access to bandwidth and the skills required to promote growth (term of reference (d)). An essential element in ensuring that industry has access to skilled professionals is an education and training system capable of meeting the demands of the audio-visual industries. This matter, addressing term of reference (e), is also examined in Chapter 4.
- 1.19 Through technological development, the boundaries between formerly distinct technologies and their content, are breaking down. Media and their content are merging into new systems of production and distribution: 'convergence'.
- 1.20 Cross-platform content creation is removing the boundaries between the traditional (for example film) and new media (electronic games). Practitioners from the traditional and the new media genres increasingly engage with each other, in order to produce content that is attractive to the market. Convergence is also apparent in the evolution of product delivery systems. Cinema, television, DVD and video tape are familiar delivery systems. Soon, motion pictures will be delivered over the internet, to televisions, adding another, hybrid delivery system.²² Technological

22 On 6 December 2003, Australian company Sharman Networks, announced its peer-to-peer file sharing program, Kazaa, would be used to distribute full length feature films over the internet (N. Manktelow, 'Kazaa's premiere', *Sydney Morning Herald*, 6 December 2003). Some Australian telecommunications companies, such as TransACT in the Australian Capital Territory, provide a video on demand service originating from a third party. The new delivery technologies have not gone unnoticed by Hollywood. BBC News, ('Online movies promised by 2005', 20 November 2003), reported that according to the head of Hollywood's Motion

convergence, however, gives rise to skills convergence: the skills required to produce one genre are now often used in the production of another.

- 1.21 Technological, content and artistic convergence will be fostered best if there are links between different audio-visual genres that allow the potential of each genre to be explored fully. The strength and effectiveness of these links is crucial to the development of the audio-visual industries. The linkages that underpin the convergence of technology and audio-visual genres (term of reference (f)) is addressed in Chapter 5.
- 1.22 The success of Australia's creative industries, their capacity to maximise export and investment opportunities (term of reference (g)), will rest upon appropriate public policy settings. Chapter 6 focuses on public policy as a vital contributor to the future success of Australia's audio visual industries. Term of reference (h) invites the Committee to consider whether any changes to existing government support programs should be made to ensure they are aligned with opportunities and trends in Australia's audio visual industries. The final chapter addresses this issue.

Australia's film industry: size, scale and benefits

Introduction

2.1 This chapter deals with the following terms of reference:

- the current size and scale of Australia's film, animation, special effects and electronic games industries (term of reference (a)); and
- the economic, social and cultural benefits of these industries (term of reference (b))

as they relate to the film industry. Australia's electronic games industry—size, scale and benefits—is addressed in Chapter 3.

2.2 In examining the size and scale of Australia's film industry (which is defined below), this chapter considers:

- production (across television, feature film, television commercials, animation, documentary, children's television, special effects and post production); and then
- distribution (beginning at paragraph 2.110).

The chapter then addresses the economic, social and cultural benefits of the film industry (beginning at paragraph 2.153).

2.3 Australia's film, animation, special effects and electronic games industries are part of a larger creative industries grouping: 'Creative Digital

Industries'.¹ This recognises the core element in these industries: creative, and the dominant technological base: 'digital'. Apart from the production and distribution of film and television programs, and electronic games, this sector includes:

- the evolution of film and television programs into digital and interactive TV, interactive and online games;
- re-usable electronic education content;
- marketing and supplying the holdings of museums, galleries and libraries in digital form, so that they can be used as factors of production;
- the internet based publishing of music, text, films and games; and
- development and marketing of software and online services that create digital media and visual effects or help manage and publish them.²

2.4 The last time comprehensive figures were collected—2000—Australia's film, animation, special effects and electronic games industries were shown to make a significant contribution to the economy.

Table 2.1 Australia's film, animation, special effects and electronic games industries, 1999-2000

Sector	Revenues (million)	Employment
Film and video production	1,473.8	15,195
Film and video distribution	-	1,426
Film industry exhibition	1,046.1	9,282
Free-to air television services	3,865	15,855 ³
Subscription television	910.9	-
Video (wholesale and retail)	998	11,034
Electronic games software and hardware	794	700 [2003 estimated]
Totals	9,087.8	53,492

Source *Electronic game employment: The Allen Consulting Group, Game industry development strategy, October 2003, p. 13; Film industry: Australian Film Commission (AFC), Get the Picture (on line), 'Service Industries Survey, to 2000', downloaded 22 January 2004 from: <http://www.afc.gov.au/gtp/oesummary.html>; 'Key statistics for the Australian film and video production industry', downloaded 22 January 2004 from <http://www.afc.gov.au/gtp/mpkeystats.html>; and submission no. 58.*

1 P. Higgs & T. Kennedy, *From Cottages to Corporations: Building global industry from Australian creativity*, Creative Industries Cluster Study, Stage Three, Department of Communications, Information Technology and the Arts, 12 December 2003, p. 6.

2 *ibid.*

3 Including public radio and public and private television.

2.5 These industries have a high potential for integration: skills and creativity in one area can be adapted and used to support another.⁴ Culturally and economically these industries matter and the effects flow on to other core areas: education, health and defence.⁵ According to Higgs and Kennedy, the broad creative digital industries foster national identity, societal cohesion and they are employers:

...there are 15,000 organisations in the sectors that make up the Creative Digital Industry and these employ almost 100,000 people. Adding the other interdependent traditional creative and cultural sectors brings the total employment to over 211,000 people.⁶

2.6 Globally, the creative entertainment and media industries are growing constantly.⁷ PricewaterhouseCoopers predicts a compound annual growth rate of 4.8 per cent per year between 2003 and 2007. In 2002 the creative entertainment and media industries were estimated to be worth some \$2.1 trillion worldwide and likely to grow to \$2.7 trillion by 2007.⁸ In 2002, Australia was ranked, in terms of:

- the number of feature films produced: twentieth;⁹
- total box office revenues: eleventh;¹⁰
- production investment in feature films: thirteenth;¹¹
- the total number of films released: fifteenth;
- the number of domestic films released: sixteenth;¹²
- the total number of cinema screens: twelfth;¹³
- the total number of cinema admissions: thirteenth;¹⁴ and

4 P. Higgs & T. Kennedy, op. cit., p. 7.

5 *ibid.*, pp. 13–14.

6 *ibid.*, p. 16.

7 PricewaterhouseCoopers, *Australian media and entertainment outlook: 2003–2007*, Sydney, 2003, p. 4. The media and entertainment industries in this study include the core elements of Australia's film, animation, special effects and electronic games industries.

8 *ibid.*, p. 3.

9 AFC, *Get the Picture Online*, 'Number of feature films produced in Australia and other countries, 1997–2002', <http://www.afc.gov.au/gtp/acompfilms.html>, viewed 23 January 2004.

10 AFC, *Get the Picture Online*, 'Total box office revenues in Australia and selected countries, 1999–2002', <http://www.afc.gov.au/gtp/acompboxoffice.html> viewed 23 January 2004.

11 AFC, *Get the Picture Online*, 'Top 20 countries ranked by production investment in feature films', viewed 23 January 2004 at: <http://www.afc.gov.au/gtp/acompinvestment.html>.

12 AFC, *Get the Picture Online*, 'Number of films released in Australia and selected countries, 1998–2002', viewed 23 January 2004 at: <http://www.afc.gov.au/gtp/acomprelease.html>.

13 AFC, *Get the Picture Online*, 'Number of cinema screens in Australia and selected countries, 1989, 1997–2002', viewed 23 January 2004 at: <http://www.afc.gov.au/gtp/acompscreens.html>.

- the number of admissions per capita: third.¹⁵

2.7 Australia has a strong domestic market in creative digital industry products and a technologically literate workforce that can seize existing and emerging opportunities. To see the opportunities in perspective and ascertain the policy prescriptions that are required, it is necessary to assess the size and scale of Australia's film, animation, special effects and electronic games industries.

Australia's film industry

2.8 The term 'film industry' has a wider meaning than the motion picture industry, as exemplified by Hollywood. The Screen Producers' Association of Australia (SPAA) suggested the industry:

... encompasses the production of feature films, television drama and non-fiction television programming, documentaries, television commercials as well as corporate/educational training and short film production. It includes companies that are undertaking their own production, those providing production services to other companies and companies that are providing postproduction and related technical services.¹⁶

2.9 For the purposes of this inquiry, the Committee considers as the 'film industry', all those related media (except interactive media) that produce audio-visual products or content, and deliver via: the cinema, free-to-air, cable, satellite, subscription and pay-to-view television, pre-recorded video tapes, and DVD. The film industry comprises the:

- motion picture industry, which produces 'feature' films for cinema exhibition and television broadcast;
- television program production industry that produces television programs, such as dramas;
- documentary sector that produces documentaries for exhibition in cinemas or broadcast on television;

14 AFC, *Get the Picture Online*, 'Number of cinema admissions in Australia and selected countries, 1989, 1991, 1998-2002', <http://www.afc.gov.au/gtp/acompadmissions.html>, viewed 23 January 2004.

15 AFC, *Get the Picture Online*, 'Number of cinema admissions per capita in Australia and selected countries, 1991, 1997-1999, 2001, 2002', viewed 23 January 2004 from: <http://www.afc.gov.au/gtp/acompadmitper.html>.

16 SPAA, submission no. 33, p. 4.

- children's program industry;
 - animation sector; and
 - special (including visual) effects and post production industry.
- 2.10 The film industry comprises production and distribution. Between them these two elements deliver audio-visual products to content consumers: cinema patrons and television viewers, video and DVD hirers and purchasers. As SPAA noted, 'The production industry creates the product that is used by those [distribution] sectors to generate revenue'.¹⁷

Production

- 2.11 The Australian Film Commission's (AFC) *National Survey of feature film and TV drama production 2002-03* estimates that feature films and TV drama represent about a third of all audiovisual production in Australia. (Other elements include documentaries, commercials, music videos, corporate videos and sport, news and current affairs production for television.)
- 2.12 In 2002-03, for the first time in eight years, feature film and TV drama production dropped in Australia; total expenditure fell from \$663 to \$513 million.¹⁸ This was largely due to a drop in foreign television production.¹⁹ In evidence, the Committee heard that this decrease was due to Australia not being sufficiently competitive on cost, which was related to other countries offering greater financial incentives.²⁰ As noted later in the report, the Government has addressed this issue by extending the 12.5 per cent refundable tax offset for film production to high budget television series in the 2004 Budget.

17 *ibid.*

18 AFC, *National survey of feature film and TV drama production 2000-03*, p. 1, viewed 20 April 2004 at <http://www.afc.gov.au/downloads/pubs/nps.pdf>.

19 Mr K. Dalton, AFC, *Transcript of Evidence*, 4 September 2003, p. 59.

20 Mr J. Lee, Cutting Edge Post, *Transcript of Evidence*, 25 July 2003, pp. 17-18.

Recommendation 1

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

Television production

- 2.14 In 2002 more than 99% of Australian households had one or more televisions, and 61 per cent had two or more.²¹ The free to air broadcasters and subscription channels all produce television drama (including single programs, mini-series, series, telemovies, and children's drama).

Australian Broadcasting Corporation

- 2.15 The Australian Broadcasting Corporation (ABC) funds and produces programs, engages in co-productions²² and commissions programs and fosters production initiatives. It has been a leader in the production and co-production of high quality Australian drama and works to develop relationships with independent producers and production companies to foster such productions. Recent examples include the telemovies *The Road From Coorain* and *Secret Bridesmaids Business* and two drama series, *Grass Roots* and *MDA*.²³
- 2.16 Most of the ABC's television drama is co-produced, due to rising production costs and the ABC's available funds. The ABC submits that the need to use 'deficit financing' (due to the growing gap between licence fees and decreasing overseas sales on the one hand and production costs on the other), severely limits the opportunity for high-end television drama production. Particularly affected are high-cost television drama, mini-series and telemovies.²⁴

21 AFC, *Get the Picture Online*, 'Proportion of Australian homes with television sets, metropolitan markets 1997-2002', viewed 5 April 2004 at <http://www.afc.gov.au/gtp/wftsvvviewstvs.html>.

22 ABC, *Annual Report, 2002-03*, p. 61 and the ABC, submission no. 22, p. 3.

23 ABC, Submission no. 22, p. 3

24 *ibid.* The ABC, with the SAFC, launched the *4 Minute Wonders* initiative in 2002. This was a cross-media project, connecting radio, television and broadband Internet. It was also intended to connect people aspiring to work in the audio visual industries: for example, the music industry with filmmakers, animators, designers. In addition to the involvement of the SAFC, the ABC said that Film Victoria has committed \$360,000 to a Victorian version of *4 Minute Wonders*.

Special Broadcasting Service

- 2.17 The Special Broadcasting Service (SBS) has also taken an active role in production. SBS regards this role as critical:
- ... both as a commissioner of new material and as a hub of training and developing new talent in the industry, experimenting with new production processes and providing a platform on which these things can be developed.²⁵
- 2.18 In its 2002-03 *Annual Report*, SBS stated that its production commissioning arm, SBSi, had commissioned, through the Special Production Fund, 29 hours of drama—either as one-off programs or as series.²⁶ In 2002-03, it commissioned 92.5 hours of programs and provided for broadcast 44.5 hours of documentary, animation and drama. It commissioned 17.5 hours of indigenous programs and 6.5 hours were transmitted.²⁷ SBSi has commissioned more than 650 hours of feature films, drama series, animation, single documentaries and documentary series from independent Australian filmmakers.²⁸
- 2.19 SBSi maintains funding and creative alliances with all federal and state film and television agencies. At the federal level, it operates Accords and co-financing arrangements with the Film Finance Corporation Australia Ltd (FFC) and has collaborated with the AFC on a number of projects.²⁹

Commercial and subscription television

- 2.20 Commercial television and subscription television undertake productions of various types—prompted by regulatory requirements and the commercial imperative of ensuring that the programs rate (and attract viewers and advertising revenue).
- 2.21 As a condition of their broadcasting licences, commercial television stations must comply with certain Australian content and children's programming standards. These standards prescribe an overall transmission quota (a minimum 55 per cent Australian content broadcast between 6 am and midnight), and minimum quotas for specific types of programs such as drama, documentaries and children's programs. Regulation ensures production of Australian content, either directly, by the broadcaster undertaking the production themselves, or by the

25 SBS, submission no. 66, p. 2.

26 SBS *Annual Report 2002–2003*, p. 19.

27 *ibid.*, p. 16.

28 SBS, submission no. 66, p. 1.

29 SBS, *Annual Report 2002–2003*, p. 16. The projects include five 10-minute dramas on indigenous themes, a number of 50 minute dramas, and a number of animation projects.

broadcaster commissioning productions or purchasing productions from independent producers.³⁰

- 2.22 Subscription television channel operators which provide a subscription television drama service are required to spend 10 per cent of their total program expenditure on new eligible drama. Any shortfall in the channel provider's expenditure in one financial year must be made up in the next. New eligible drama programs are defined according to the Australian Content Standard for commercial television and include programs that are Australian, Australian/New Zealand, New Zealand or an official Australian co-production.³¹
- 2.23 According to the FFC, subscription television has become a significant investor in Australian feature film and TV drama production since the introduction of the program budget expenditure requirement.³² The AFC reports that subscription channels spent \$21 million on new Australian drama in 2001–02.³³

Television drama production value

- 2.24 Total expenditure on television drama production³⁴ in 2002–03 was reported to be \$281 million, \$40 million below the previous financial year. The number of productions rose from 49 to 54 but broadcast hours produced fell from 765 to 701. The AFC attributed the fall to the dramatic decline in co-productions that were made primarily for the international market.³⁵
- 2.25 The level of local television drama production remained steady over the two years, with 38 productions in each year. The value of production rose from \$212 million to \$222 million, the number of hours produced has fallen from 782 hours in 2000–01, to 657 in 2001–02 and 638 in 2002–03.³⁶

30 See the ABA internet site, 'Content regulation: Content standard', at: <http://www.aba.gov.au/tv/content/ozcont/std/index.htm#5>.

31 See the ABA internet site, 'Content regulation: Pay TV drama expenditure', at: http://www.aba.gov.au/tv/content/ozcont/paytv_expend/index.htm.

32 FFC, submission no. 70, p. 8. The FFC noted the Australian Broadcasting Authority's (ABA) review of the regulation (discussed later in the chapter) and awaited any consequent government amendment to the regulation. The FFC also noted a decision is awaited on whether documentary channels should meet a similar local content requirement.

33 AFC, *Get the Picture Online*, 'Fast facts: pay TV', viewed 21 January 2004 at <http://www.afc.gov.au/gtp/wptvfast.html#Raj30695>. As at June 2003, pay television had 1.5 million subscribers and reached 21% of households.

34 This includes productions for the domestic market only, co-productions and productions for foreign markets.

35 AFC, *National survey of feature film and TV drama production 2002-03*, p. 3. The document is available at <http://www.afc.gov.au/downloads/pubs/nps.pdf>.

36 AFC, *National survey of feature film and TV drama production 2002-03*, p. 3.

- 2.26 Local 'in house' production by the free-to-air broadcasters fell in 2002–03, to five titles, or 170 hours of drama production, valued at \$24 million.³⁷
- 2.27 In 2002–03, there were 19 series made for adults, compared to 20 in each of the preceding two financial years. Total production value amounted to \$121 million, a fall of \$15 million over the preceding year.³⁸
- 2.28 Mini series for adults now appear popular with producers. In 2002–03, four titles were produced (compared to none in the previous year), with a total production value of \$23 million.³⁹
- 2.29 In 2002–03, four Australian telemovies were produced, half the number from the previous financial year. Production value fell from \$18 million to \$10 million.⁴⁰
- 2.30 Co-productions have fallen in number and value. Productions worth \$12 million were undertaken in 2002–03, down from \$83 million in the preceding financial year.⁴¹
- 2.31 Foreign television drama production in Australia rose in value and amount in 2002–03 over the preceding financial year. Budgets for foreign productions amounted to some \$92 million of which \$56 million was spent in Australia.⁴² All up, this represented 20 per cent of the total television drama expenditure in Australia in 2002–03, up from 10 per cent or \$31 million in the preceding financial year.⁴³

37 *ibid.* In 2001–02 the free-to-air broadcasters made six productions, or 232 hours of programs, valued at \$43 million.

38 *ibid.* The AFC also reports the total hours produced fell to 525, from 561 in 2001–02 and 639 in 2000–01. This may be accounted for, in part, by networks producing high-budget drama series that contained fewer episodes.

39 *ibid.* This was the highest number produced since 1995–96 and the highest value since 1989–90. In 2001–02 none were produced.

40 *ibid.*

41 *ibid.*, p. 4. In 2001–02 there were four productions, with 54 hours of programs produced; in 2002–03, one production, amounting to two hours.

42 *ibid.*

43 *ibid.* No foreign series or serials were made in Australia in 2002–03, eight telemovies amounting to eight hours of program were made (seven US; one German), along with two mini-series (one US; one Japanese), amounting to 10 hours. As well, two foreign children productions were made (a second series and a mini-series, both for the BBC), involving 10 hours.

Table 2.2 Television drama production, 2002–2003

Genre	No. titles	No. hours	Value ⁴⁴	Av. cost p/hr ⁴⁵
Australian adult series	19	525	\$121m	\$0.230m
Australian adult mini-series	4	14	\$23m	\$1.722m
Australian adult telemovies	4	6	\$10m	\$1.610m
Australian children's programs	11	94	\$68m ⁴⁶	\$0.722m
Co-productions—adult	1	2	n.p. ⁴⁷	n.p.
Co-productions—children's programs	3	33	n.p.	n.p.
Foreign telemovies	8	15	\$35m ⁴⁸	\$2.33m
Foreign mini-series	2	5	\$15m ⁴⁹	\$3.0m
Foreign children's programs	2	10	\$6m ⁵⁰	\$0.60m

Source AFC, *National survey of feature film and TV drama production 2002-03*, pp. 3–5. Average cost per hour for foreign productions, committee secretariat calculation.

Funding of television drama production

- 2.32 Public sources, such as the ABC, SBS and the FFC, contributed 28 per cent of funding in 2002-03. In 2002-03, there was an increase in funding from the ABC and FFC. Funding from the state film and television agencies has been gradually increasing and investment from the SBS remained steady.⁵¹
- 2.33 Funding increased from foreign sources in 2002-03, with \$37 million invested in 19 titles. Children's titles accounted for most foreign investment (53 per cent), still well below the levels of 1999–2001, according to the AFC.⁵²
- 2.34 The Australian film and television industry contributed 49 per cent of the television drama budgets in 2002-03 compared to 52 per cent the previous year. Overall, finance from this sector amounted to \$108.1 million for 27 titles, and the largest contribution was made by the commercial free-to-air broadcasters, which together contributed some \$94.1 million.⁵³

44 Value of spend in Australia.

45 In Australia.

46 \$60 million spent in Australia.

47 'n.p.' = not available for publication for confidentiality reasons, but included in totals where relevant.

48 \$59 million total budget.

49 \$26 million total budget.

50 \$7 million total budget.

51 AFC, *National survey of feature film and TV drama production 2002-03*, p. 6.

52 *ibid.*

53 *ibid.*

- 2.35 The subscription television networks' investment in Australian television drama production appeared modest: \$3,900,000 in ten titles,⁵⁴ an average of \$390,000 per title compared with \$4,000,000 per title by the Australian film and television industry overall. Finance from production and distribution companies rose to \$10,000,000 for 10 titles, compared to \$6,000,000 in 25 titles in the preceding financial year.⁵⁵
- 2.36 The AFC reports that investment in television drama from private sources fell to \$13.9 million for three titles.⁵⁶

Table 2.3 Finance sources, Australian television drama production, 2002–2003

Source	Amount	Per cent / budget	No. programs
Australian public sources ⁵⁷	\$62.6m	28 per cent	25
Australian film and television industry ⁵⁸	\$108.1m	49 percent	27
Australian private investors ⁵⁹	\$13.9m	6%	3
Foreign sources	\$36.9m	17%	19

Source: AFC, *National survey of feature film and TV drama production 2002-03*, p. 6.

Feature film production

- 2.37 There were 1,975 businesses involved in the film and video production industry in 1999–2000, according to the Australian Bureau of Statistics (ABS). Industry income was \$1,474 million for 1999–2000⁶⁰ and film and video production businesses employed 15,195 people. In June 2000, more than 80 per cent of these businesses employed four people or less, while 25 companies employed more than 100 people.⁶¹

54 *ibid.*

55 *ibid.*

56 Compared to \$27.8 million on five titles in 2001–02. AFC, *National survey of feature film and TV drama production 2002-03*, p. 6. The high level of investment in the earlier year could be accounted for by two relatively high-budget series financed through the Macquarie Nine Film and Television Investment Fund.

57 Federal and state agencies and funding bodies, the ABC and SBS.

58 Mainly Australian commercial free-to-air broadcasters and subscription channels, and Australian-based television production and distribution companies.

59 Private investment sources, including FLICS.

60 ABS, *Film and video production and distribution 1999-2000* (cat. No. 8679.0), reported in AFC, *Get the Picture Online*, 'Production industry', <http://www.afc.gov.au/gtp/mpprofile.html>.

61 According to ABS Services Industries Surveys, conducted in June 2000.

- 2.38 This makes it clear that the industry is made up primarily of small to medium enterprises. Indeed, FFC referred to the film production sector as a 'cottage industry with producers valiantly developing scripts on minute budgets and having little or nothing to sustain them between films'.⁶²
- 2.39 All states have studio facilities that can be used for production. The major studios are in New South Wales, Victoria and Queensland. AusFilm lists six studio complexes operated by member organisations: four in Sydney and one each in Melbourne and the Gold Coast.⁶³

Recent feature film production

- 2.40 The number and range of film budgets has narrowed in recent years. In 2002–03, 19 Australian feature films were made, compared to 30 in the previous year. In 2002–03 the value of production was \$49 million, compared to \$131 million in the preceding financial year.⁶⁴
- 2.41 The total spent on feature film production in Australia in 2002–03 was reported by the AFC to be \$232 million, compared to \$342 million in the preceding financial year. From the total budget (\$398 million) of feature films produced, \$166 million was not spent in Australia.⁶⁵
- 2.42 In 2002–03 the value of co-productions was \$14 million, down \$14 million from the year before. Budgets for the two co-productions in 2002–03 totalled \$22 million, of which \$14.08 million was spent in Australia.⁶⁶
- 2.43 Five foreign features were filmed in Australia in 2002–03, two fewer than the preceding year. Total spending was \$169 million, a decline of \$16 million over the preceding year.⁶⁷

62 FFC, submission no. 70, pp. 4 and 8.

63 AusFilm, *The 2004 Ausfilm guide to feature film, TC and TVC production in Australia*, Sydney: AusFilm, 2004, pp. 37–38. Mrs J. McCrombie, South Australian Film Commission, said that there are all up 18 film studios in Australia; see *Transcript of Evidence*, 30 September 2003, p. 14.

64 AFC, *National survey of feature film and TV drama production 2002–03*, p. 2. No Australian features had budgets over \$10 million and only one film had a budget in the \$6–10 million range. Fewer films were made for less than \$1 million, with seven being produced, in contrast to ten the preceding financial year.

65 *ibid.*

66 *ibid.*, p. 3. In the preceding financial year, co-produced features had total budgets of \$39 million, of which \$28.08 million was spent in Australia.

67 *ibid.*

Table 2.4 Feature film production summary, 2002-03

	Number made	Value	Spend in Australia
Australian	19	\$49m	\$49m
Co-production	2	\$22m	\$14m
Foreign	5	\$327m	\$169m
All productions	26	\$398m	\$232m

Source AFC, *National survey of feature film and TV drama production 2002-03*, p. 2.

Funding of feature films

- 2.44 Funding sources for feature films produced in Australia in 2002-03 were mixed. Of the 19 Australian feature films made, six were funded substantially by public funds. Foremost was the FFC, with a mixture of state agencies and SBSi.⁶⁸
- 2.45 In 1998, 'runaway' production—US film and television made outside the USA—was estimated to be worth a total of US\$1.7–2.8 billion. Australia secured US\$118 million of this.⁶⁹

Television commercial production

- 2.46 Television commercials play an important role in the Australian film and television production industry. They reflect the national identity and help sustain the infrastructure on which film and TV production is based:

... commercials use exactly the same equipment, facilities and, most of the time, the same practitioners as the feature film industry and the TV industry. Because it is basically a freelance industry, this is particularly important for technicians and so on who cannot earn a living all year round from working just on feature films or on television series. It is awfully important, both in training terms and in economic terms, for there to be a spread of work across all the available areas.⁷⁰

68 *ibid.* The FFC also invested in the two co-productions. Another two of the 19 were substantially funded by Macquarie Nine Film and Television Investment Fund, with additional funding from the FFC, as well as other public and private sources.

69 AFC, *Get the Picture Online*, 'Feature film production', viewed 22 January 2004 at <http://www.afc.gov.au/gtp/mpfeatures.html>. This indicates, the AFC states, Australia garnered between four to seven per cent of the US runaway production that year.

70 Mr D. Muir (private capacity), *Transcript of Evidence*, 28 August 2003, p. 53. See also AFC, *Get the Picture Online*, 'Production of television commercials', viewed 22 January 2004 at <http://www.afc.gov.au/gtp/mpads.html>.

- 2.47 Until the early 1990s, content regulation prevented foreign made television commercials being screened on Australian free-to-air commercial television. The Australian Content in Advertising standard (TPS 23) requires that Australian-produced commercials comprise at least 80 per cent of advertising time between 6 am and midnight. It follows that up to 20 per cent of advertising air time can now be used for foreign commercials. In 2000 foreign commercials averaged 7.4 per cent of all advertising on the Nine network, 10.6 per cent on Seven and 10.5 on Ten.⁷¹
- 2.48 Figures on television commercial production were last collected for 1999–2000.⁷² 318 businesses were involved in the production and sale of television commercials,⁷³ with income of \$186 million; the production cost of television commercials was just below \$243 million.⁷⁴

Animation production

- 2.49 ‘Animation’ refers to a range of techniques in which each frame of a film (or videotape or other capture medium) is generated individually, so that when projected in sequence the film or tape generates the illusion of movement. Each frame can be generated by a computer, by photographing a drawn image, ‘cell-type animation’, or by making small progressive changes to a model or scene (‘stop motion’ which includes ‘pixilation’ and ‘claymation’).⁷⁵
- 2.50 Local animator Adam Elliot recently gave Australian animation international recognition with an Academy Award this year for his production *Harvie Krumpet*.
- 2.51 Generating a film using any animation technique can be very labour-intensive, although the development of computer animation has increased the speed of production.⁷⁶ Moreover, the very labour intensive components of animation production may be sent off-shore where labour costs are lower:

71 AFC, *Get the Picture Online*, ‘Production of television commercials’, viewed 22 January 2004 at <http://www.afc.gov.au/gtp/mpads.html>.

72 ABS, op. cit., p. 8.

73 ABS, op. cit., p. 9.

74 \$48 million of this was attributed to television industry businesses and \$194.9 to other businesses. Of the total production costs, \$35.0 million worth was produced for markets abroad. ABS, op. cit., p. 13.

75 Anon, ‘Animation’, viewed 17 January 2004 at <http://www.wordiq.com/cgi-bin/knowledge/lookup.cgi?title=Animation>. Clay and puppet animators move inanimate objects incrementally before a camera and shoot them frame by frame (claymation). Pixilation animators shoot ‘live’ objects—usually, people—frame by frame.

76 AFC, submission no. 58, p. 7.

...for cost-saving reasons certain repetitive and non-creative aspects of the animation process are sub-contracted to overseas facilities in locations such as China, Hong Kong and the Philippines.⁷⁷

- 2.52 However, according to the AFC, technological change is reducing the need for this. To sustain this, and to remain competitive, the animation industry requires continuous capital investment in technology. This is also true of post-production.⁷⁸
- 2.53 Few detailed statistics are available on the animation industry in Australia. *Get the Picture* contains only general information, and recent detailed data on employment and expenditure does not appear to be collected. As a result, devising specific policy development for the industry and identification of market opportunities is difficult.
- 2.54 Animation production in Australia has involved a range of film genres: feature films, television series, short films, television commercials and electronic games. Between 1990 and 2002 a little over \$300 million was spent on animation production and official co-productions in Australia.⁷⁹

Table 2.5 Production and co-production of animated features and TV drama 1990-1991 to 2001-2002

	Animated Features		TV drama (mini-series, series and serials)	
	1990s	2000-2001 to 2001-2002	1990s	2000-2001 to 2001-2002
No. produced	3	0	38	11
Duration	240 minutes	0	337 hours	100 hours
Production value	\$19 million	0	\$215 million	\$68 million

Source Australian Film Commission, submission no. 58, appendix 2.

- 2.55 It is not known what income the animation industry generates. However, Yoram Gross-EM.TV stated that one of its products generated \$10 million in the period 1992–1999 from merchandising alone.⁸⁰ It is likely that the Australian animation industry derives much of its income from exports and co-productions, with only modest support from licence regulations

77 Yoram Gross-EM.TV, submission no. 63, p. 5.

78 AFC, submission no. 58, p. 7.

79 These figures and those in the following table are likely to fall short of the actual level of activity because they exclude foreign titles, titles post-produced only in Australia and animation of commercials and components of programs. AFC, *Get the Picture Online*, viewed 17 January 2004 at <http://www.afc.gov.au/gtp/mpanimationsummary.html>.

80 Yoram Gross-EM.TV, submission no. 63, p. 6.

and subventions from public funds.⁸¹ For example, the Australian animation industry had to be export-oriented, Yoram Gross-EM.TV testified, when describing the need for public support for Australian animations products. Australia's population of 20 million does not provide an economic base to cover the cost of production, of either animation or traditional films:

... when an American producer produces in the United States, he can cover most of his costs from the United States. If a French company produces in France, they can cover most of the costs in their country. It is the same with Germany and, of course, Japan.

In Australia, with 20 million people, we cover only 15 to 20 per cent of the cost of a production in Australia. We need to cover the rest from the rest of the world.⁸²

- 2.56 Walt Disney Animation Australia produces only for export.⁸³ Mr Tim Brooke-Hunt stated that the Australian animation industry has a successful export record:

Animation is an often-overlooked part Australia's film and TV industry which has successfully exported uniquely Australian stories to children around the world - eg: *Blinky Bill* (Yoram Gross), *The Silver Brumby* (Media World), *Dot and The Kangaroo* (Yoram Gross), *Old Tom* (Yoram Gross).⁸⁴

- 2.57 The number of employees is not known, however, animation production houses are said to be characterised by the need for a more highly skilled and more permanent work force than other forms of production.⁸⁵

81 Mr G. Watson, Yoram Gross-EM.TV, *Transcript of Evidence*, 5 September 2003, p. 3 and Mr T. Brooke-Hunt, Pacific Vision, *Transcript of Evidence*, 5 September 2003, p. 30. A number of witnesses mentioned the financial involvement of the FFC in their projects, and the importance of the Children's Television Standards, which create a 'market' for Australian-produced children's programs. This is because commercial broadcasters are required to screen the Australian children's programs when, due to cost, the commercial broadcasters would not. (See Mrs B O'Mahoney, Australian Children's Television Foundation, *Transcript of Evidence*, 27 August 2003, p. 41.) The other regulatory support, which provide mandatory standards for children's television are the Australian Content Standards. See: <http://www.aba.gov.au/tv/content/ozcont/index.htm>.

82 Mrs S. Gross, Yoram Gross-EM.TV, *Transcript of Evidence*, 5 September 2003, pp. 1-2.

83 K. Aveyard, 'Australian animated drama production', *Get the Picture*, viewed 17 January 2004 at <http://www.afc.gov.au/gtp/mpanimation.html>.

84 Pacific Vision, submission no. 51, p. 1.

85 AFC, submission no. 58, p. 7. The AFC also stated that the largest foreign animation company with an Australian operation, Walt Disney Animation Australia, employs over 200 people, working on projects that originate from its headquarters in the USA.

- 2.58 Yoram Gross-EM.TV stated that the studio had sixty-one full-time employees, and that between ten and thirty freelance independent contractors were usually engaged to provide services for a single production. These contractors include scriptwriters, character designers, storyboard artists, layout artists, composers and musicians.⁸⁶

Documentary production

- 2.59 An ongoing issue in assessing the size and scale of the various elements of Australia's film industry is the absence of detailed systematic information. The AFC's *Get the Picture* provides an invaluable source but there appear to be gaps in the information, including on the documentary sector:

Statistics about documentary production and exhibition in Australia are limited and fragmented due to the limited regulation of documentary on television services. The ABA and the AFC both collect data, as do the commercial television networks and the subscription [television] industry group, ASTRA. Film Australia and the FFC also have data on documentaries produced or funded by government bodies. The ABC has recently changed its reporting structure so that documentary is no longer reported on as a separate category, but is reported on through genre and subject headings.

Therefore there is a limit to what reliable and comparable data is available to assess the size of the documentary sector in Australia.⁸⁷

- 2.60 Use of such data as is collected may not be straightforward: the AFC noted a discrepancy between data it issued and the ABS' data.⁸⁸
- 2.61 The documentary industry has two facets: the independent sector and the 'in house' sector, where the broadcaster is the sole producer. Independent production companies in Australia made almost 1000 hours of documentaries (766 titles, valued at \$245 million) between 1996-97 and

86 Submission no. 63, p. 5. Yoram Gross-EM.TV also indicated that ancillary service businesses such as audio studios, post-production services and the like are used during the animation production process. Yoram Gross estimated that up to 150 Australians are employed across the eighteen-month cycle of each animated series. On average the studio commences a new project every six months and it has the capacity to keep in production up to four projects at any one time.

87 Film Australia, submission no. 82, p. 12.

88 AFC, *Get the Picture Online*, 'About the data', viewed 20 January 2004 from <http://www.afc.gov.au/gtp/mpdocosabout.html>. The AFC noted the differences are likely to be due to definitional differences, for example, the possible inclusion in the ABS figures of magazine-style documentaries, which the AFC and ABA exclude. Also, for documentaries, AFC calculates using the exact program rather than rounding to a commercial hour (or half).

- 2001-02. In the same period inhouse production of documentaries by Australian commercial and public broadcasters amounted to 623 hours.⁸⁹
- 2.62 During the period 1995-96 to 1999-2000, some 195 documentaries were produced 'in house' with expenditure of \$48 million. It is not clear how many people work in the documentary industry but these figures suggest there may be a relatively stable workforce producing documentaries at a steady rate. The figures also reveal most documentary production is conducted independently.⁹⁰
- 2.63 The AFC reports that from the 1990s to 2002, eight animated documentaries were made, totalling 3.9 hours⁹¹ and most production is conducted by NSW-based companies, followed by companies in Victoria. It also reports that between 1996-97 and 1999-2000, most companies made one or two titles, while 16 made five or more.⁹²
- 2.64 Development funding for documentaries is provided via the AFC, Film Australia and state film and television agencies, principally the NSW Film and Television Office, Film Victoria and Screenwest.⁹³ In 2001-02, according to Film Australia, the total direct investment available through the 'Commonwealth Film Program' was \$15.8 million which was split between the federal agencies, Film Australia, the FFC and the AFC. Some \$6.9 million was provided by Film Australia through the National Interest Program and \$7.2 million was provided by the FFC. This does not include finance from the ABC and SBS or finance raised and claimed under Division 10BA of the *Income Tax Assessment Act*.⁹⁴

89 AFC, *Get the Picture Online*, 'What Australians are making—documentary production', viewed 17 April 2004 at <http://www.afc.gov.au/GTP/mpdocos.html>.

90 Film Australia, submission no. 82, p. 13.

91 AFC, *Get the Picture Online*, 'Production of Australian animated documentaries...', viewed 20 January 2004 at <http://www.afc.gov.au/gtp/mpanimationdocos.html>. They were produced by the ABC Natural History Unit (*Once upon Australia*), Film Australia (*Muttaborrasaurus: Life in Gondwana* and *Human Contraptions*), and Animation Works (*Callahan: He Won't Get Far on Foot*).

92 Between them, these 16 companies produced 255 hours of documentaries, and over the four-year period, this figure accounted for 36 per cent of the total hours produced. AFC, *Get the Picture Online*, 'documentary production', downloaded 20 January 2004 from <http://www.afc.gov.au/gtp/mpdocos.html>.

93 Film Australia, submission no. 82, p. 12 and AFC, *Get the Picture Online*, 'Funding for documentary development and production...', downloaded 20 January 2004 from <http://www.afc.gov.au/gtp/mpdocosgovtfund.html>.

94 Film Australia, submission no. 82, p. 12. When the contributions of the state film and television agencies are added the figure rises to \$17.3 million, according to AFC, *Get the Picture Online*, 'Funding for documentary development and production...', viewed 20 January 2004 at <http://www.afc.gov.au/gtp/mpdocosgovtfund.html>.

Film Australia

2.65 The public institution whose primary focus is to promote Australian documentary production is Film Australia, a federally-owned film production and distribution company. Its mission is:

...the creation of an audio-visual record of Australian life through the commissioning, distribution and management of programs which deal with matters of national interest to Australia or illustrate and interpret aspects of Australian life.⁹⁵

2.66 Under contract with the Australian Government, Film Australia is funded to devise, produce and distribute National Interest Program productions; it acts as the executive producer of such programs. In addition to this role, Film Australia also provides a world-wide distribution service and a film and television production facility in Sydney.⁹⁶

Australian Broadcasting Corporation

2.67 The ABC sees its role as 'central... in maintaining and developing a television documentary culture in Australia'.⁹⁷ It fosters strong and effective linkages between ABC Television and independent documentary makers. Over the past decade the ABC has produced more than 600 documentaries with the independent sector and is one of the primary outlets for Australian documentaries. It provides two weekly one hour slots: *The Big Picture* and *True Stories*; and a half-hour series in the weekly timeslot, *Reality Bites*. Specialist science, religion, arts and indigenous documentaries are also produced, for example, *Catalyst*, *Compass*, *Sunday Afternoon Arts* and *Message Stick*.⁹⁸

2.68 The ABC also produces *Australian Story*, a program that combines biography, documentary and current affairs. This half-hour program airs weekly and has won Walkley awards for excellence in journalism and cinematography.⁹⁹

2.69 The ABC has operated documentary program Accords with the FFC and Film Australia since the beginning of the 1990s. Under these Accords, the ABC must acquire up to twenty-four hours of independently produced programs annually. The ABC pre-purchases these programs for a broadcast licence fee of one third the total production cost. Pre-purchases may also be mediated through a FFC funding mechanism, the non-

95 Film Australia, submission no. 82, p. 6.

96 *ibid.*, p. 7.

97 ABC, submission no. 22, p. 4.

98 *ibid.*, pp. 4 & 5.

99 See <http://www.abc.net.au/austory/aboutus.htm>

Accord, whereby a further ten hours of documentaries are acquired when the project can attract additional investment, often in overseas television pre-sale or distribution guarantee, in addition to the local television pre-sale offered by the ABC.¹⁰⁰

...the Accord arrangements have led to the production and broadcast of a diverse range of innovative and award-winning documentaries including *Cunnamulla*, *A Wedding in Ramallah*, *Family Foibles*, *Losing Layla*, *DIY Law*, and *A Message From Moree*.¹⁰¹

- 2.70 The ABC has also established international linkages and devised co-productions with the Canadian Broadcasting Corporation.¹⁰² Figures for the ABC investments in documentary production, in house, with independents or in co-production, do not appear to be available.

Special Broadcasting Service

- 2.71 Through SBSi—its commissioning arm—SBS has supported Australian documentary makers by commissioning programs (26.5 hours) through a special production fund allocated by the Federal Government. This is outsourced totally to the independent production sector.¹⁰³ Under the SBSi general production fund, 33 hours of documentaries were commissioned.¹⁰⁴

Commercial television

- 2.72 The ABA requires free-to-air commercial television broadcasters to screen a minimum of 20 hours of new Australian documentary programs each year. This level was reviewed in 2001–02 by the ABA and it considered lifting the level to 26 hours. However, the Authority decided to retain the existing requirement. Despite the requirement, Film Australia said, the expenditure on documentaries of the free-to-air commercial television broadcasters had halved between 1996–97 and 2000–01.¹⁰⁵ Figures have not been provided on recent expenditure on documentary production by free-to-air commercial television broadcasters.

100 ABC, submission no. 22, p. 4.

101 *ibid.*

102 *ibid.*, p. 5.

103 SBS, submission no. 66, p. 1. 26.5 hours were commissioned under the special production fund.

104 Some involved Accord funding arrangements with the FFC. As well, SBSi commissions programs, but they may involve presale arrangements with other, mostly international, broadcasters. Altogether the two funds commissioned a total of 59.5 hours of documentaries by SBSi during 2002–03: *SBS Annual Report, 2002–03*, pp. 18–19.

105 Film Australia, submission no. 82, p. 15.

Subscription television

- 2.73 Subscription television drama channels must meet certain minimum expenditure requirements for Australian drama. Unlike the requirements facing commercial free-to-air television and subscription television drama channels, there are no minimum hours (or program expenditure) for Australian made documentaries on subscription television documentary channels.¹⁰⁶ The subscription television industry maintains that it does broadcast such Australian documentary programs but Film Australia stated that reliable statistics are not available.¹⁰⁷
- 2.74 The ABA has been reviewing Australian content on subscription television (at the request of the Minister for Communications, Information Technology and the Arts, and reported to him in 2003). The outcomes of the review are awaited. The ABA discussion paper, inviting submissions to the review, noted the need for information on the amount, range and nature of Australian content on subscription TV, including documentary programs, which are seen as particularly important in terms of culture.¹⁰⁸

Recommendation 2

- 2.75 **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.**
- 2.76 The submission from the Australian Subscription Television and Radio Association (ASTRA) to the ABA review states that 'expenditure and broadcast hours are commercial in confidence'.¹⁰⁹ Nevertheless, ASTRA listed in its submission Australian documentary programs titles for 2001–02, 19 in total, across 5 channels.¹¹⁰ It seems that all 19 programs were produced 'in house'¹¹¹ and that ten were new.¹¹²

106 *ibid.*, p. 8.

107 *ibid.*, p. 15. The Committee has not been provided with figures on investment by subscription television channels in new Australian documentaries. ASTRA's submission was silent on this.

108 *ibid.* The ABA paper is available at http://www.aba.gov.au/tv/investigations/projects/review_subsTV/index.htm, see p. 33.

109 ASTRA, *Australian content on subscription TV, 2003*, submission to the review of Australian content on subscription television, p. 50.

110 *ibid.*, table 6: Australian documentary programming, p. 82.

111 Which is defined in the ASTRA submission as an 'Australian Program specifically commissioned or produced by the business operation completing this [the ASTRA] survey.'

2.77 While expenditure levels on production ‘in house’ and acquisition from independent producers of Australian documentaries is not available, the Chief Executive Officer of Film Australia discussed acquisition of independent programs:

Pay TV channels in Australia tend to buy documentaries after they are produced, which is not helpful in terms of financing production. ... So a program that can cost somewhere between \$350,000 and \$500,000 to produce an hour’s worth of documentary might sell to a pay TV station for anywhere between \$1,200 and \$2,000.¹¹³

2.78 Film Australia stated that the subscription television documentary channels rate in the top 10 and top 20 subscription services.¹¹⁴ However, in its submission to the ABA review, Film Australia stated that in 2002 the five subscription documentary channels listed had acquired from Film Australia just 17.45 hours of programming. A survey of subscription television in 1999 revealed levels of Australian content as low as 2.4 percent to 5.2 per cent of the total hours broadcast from 1997–99.¹¹⁵

2.79 Film Australia’s submission to this inquiry was forthright:

Australian Pay TV documentary channels remain unregulated, broadcast limited amounts of Australian programming, commission negligible amounts and pay licence fees that represent a small fraction of the cost of production.¹¹⁶

2.80 In recognition of the substantial cultural benefits of documentaries, the Committee makes the following recommendation.

ASTRA defined ‘new’ as ‘Australian Programs where the whole or a substantial part of the program has not previously been televised in Australia or New Zealand on a broadcasting service at any time before the expenditure on the programming is incurred,’ op. cit., p. 39.

112 The figures were calculated by comparing titles in table 6: Australian documentary programming, with the titles listed in table 4: New Australian programs– in house. See ASTRA, op. cit., table 6: Australian documentary programming, p. 82.

113 Ms S. Connolly, Film Australia, *Transcript of Evidence*, 26 November 2003, p. 2.

114 Film Australia, submission no. 82, p. 15. In its submission to the ABA Review of Australian content on subscription television, Film Australia noted its experience of pay tv acquisitions as being erratic and providing low returns, February 2003, p. 5.

115 Film Australia submission to the ABA Review of Australian content on subscription television, p.4, viewed 10 April 2004 at http://www.aba.gov.au/tv/investigations/projects/review_subsTV/pdf/FilmAust.pdf.

116 Film Australia, submission no. 82, p. 19.

Recommendation 3

- 2.81 **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.**

Children's television production

- 2.82 Although the AFC publishes some information about children's television production, in general, scant information is available as to employment generated, revenue accrued, foreign sales or the sorts of production that are popular. This is surprising given that children's television is regarded as the most successful genre financially.¹¹⁷
- 2.83 Children's television programs are produced by program makers and producers, such as Yoram Gross-EM.TV, producers such as Pacific Vision, the two public broadcasters (ABC, SBS), commercial free-to-air television and subscription television. The other major player is the Australian Children's Television Foundation (ACTF).
- 2.84 The ACTF is a national non-profit organisation, created to encourage development, production, and distribution of high quality television programs, films and other audiovisual media for children.¹¹⁸ It receives allocations from each state and territory and the Australian Parliament provides an appropriation of about \$2.3 million per annum. The ACTF described its activities:
- The funding we receive allows us to develop and identify programs that we want to produce, but we raise the production budgets in the same way any independent producer would. That may be private funding, it may be private investment under 10BA, it may be FFC funding and it will also be a combination of presale and licence fees.¹¹⁹
- 2.85 The ACTF testified that the ABC, Channels Seven and Ten have acquired programs from the Foundation, but Nine has yet to do so.¹²⁰
- 2.86 In recent years, the total production value of TV drama made for children, particularly mini-series, has increased. In the first half of the 1990s it averaged \$47.7 million per year. Between 1995-96 and 1999-2000, it

117 Mr T. Brooke-Hunt, Pacific Vision, *Transcript of Evidence*, 5 September 2003, p. 31.

118 ACTF, viewed 20 January 2004 at http://www.actf.com.au/about_us/aboutus_frameset.htm.

119 Mrs J. Buckland, ACTF, *Transcript of Evidence*, 27 August 2003, p. 40.

120 *ibid.*, p. 42.

averaged \$79.6 million per year. Over the decade, 1990-2000, 126 children's drama programs were produced, worth \$636 million. Of these programs, 106 titles were Australian, eleven were co-productions and nine were foreign titles.¹²¹

- 2.87 Between July 2000 and June 2003, 33 Australian children's TV drama programs have been made. In addition, there were five co-productions and three foreign titles. Total production value was \$258 million.¹²²
- 2.88 Most of the Australian programs or co-productions are either series or mini-series.¹²³ During the 1990s, eight children's telemovies were made, worth \$12 million. In the three years following July 2000, on average 11 Australian titles were produced, with an average budget of \$6.2 million per title. From July 2000 to June 2003, the AFC reports, only two children's telemovies were produced.¹²⁴
- 2.89 Production of children's television programs is fostered by regulations that require commercial broadcasters to broadcast a certain number of hours of programs that meet specific criteria, as well as financial and other support from public sources.¹²⁵ In this mix of public funding and mandated acquisition, public funds continue to be a significant source of finance for Australian children's TV drama programs, according to the AFC. The AFC, the AFC stated, funded 15 of the 33 titles produced in the three years since 2000-01.¹²⁶ Other public sources include the public broadcasters SBS and the ABC, the Australian Children's Television Foundation (ACTF), and state film and television agencies.
- 2.90 The ABC was one of the first producers of children's programs, with such programs as *Playschool*. The ABC's focus in children's programming is on innovative programs of a high standard that maintain non-commercial values, and reach different target groups in accordance with their needs,

121 AFC, *Get the Picture Online*, 'Number, total production value and hours of drama programs for children (series, mini-series and telemovies) shot 1990-91—2002-03', viewed 11 May 2004 at <http://www.afc.gov.au/gtp/mpkidstvsummary.html>.

122 *ibid.*

123 The AFC reports that the average budget in 2002, per title, rose from about \$3.0 million during the 1980s to \$5.8 million during the 1990s., *Get the Picture Online*, 'Number of Australian mini-series for children produced...', viewed 19 January 2004 at <http://www.afc.gov.au/gtp/mpkidstv1980.html>.

124 AFC, *Get the Picture Online*, 'Number, total production value and hours of drama programs for children (series, mini-series and telemovies) shot 1990-91—2002-03', *loc. cit.*

125 See <http://www.aba.gov.au/tv/content/childtv/index.htm> for further information.

126 AFC, *Get the Picture Online*, 'Drama production for children', viewed 11 May 2004 at <http://www.afc.gov.au/gtp/mpkidstv.html>.

age and level of maturity, using a range of genres, from pre-school animation to teen dramas.¹²⁷

- 2.91 The ABC is active in acquiring programs and participating in productions.¹²⁸ However, the ACTF pointed out that while the ABC was one of the ACTF's most interested customers, the Corporation suggests to industry organisations that it is constrained in the extent of its commissioning activities by the availability of funds.¹²⁹
- 2.92 Just under a third of the finance for Australian children's TV drama between 1995-96 and 1999-2000 came from government sources, mainly the FFC. It funded 20 of the 53 drama programs made for children during this time. The SBS, the ABC, the ACTF, the Commercial Television Production Fund and state government agencies also contributed. Australian production and distribution companies contributed 22 per cent, commercial broadcasters 13 per cent, and foreign sources contributed 33 per cent of finance.¹³⁰
- 2.93 According to the AFC, almost all the production budget of Australian children's television drama programs is spent in Australia. In 2002-03, 16 children's television drama productions spent \$77m or 77 per cent of their budgets in Australia. The portion spent abroad was largely spent by animated productions which sent the less creative and more time-intensive elements of the production off-shore where labour costs are lower.¹³¹
- 2.94 In 2002-03, the production value and hours of Australian children's programs increased, as did the average per hour cost.

Table 2.6 Australian children's television program production, 2001- 2003

Year	No	Hours	Value	Spent in Australia	Average per hour cost
2001-02	10	85	\$58 m	\$53 m	\$0.686m
2002-03	11	94	\$68 m	\$60 m	\$0.722m

Source AFC, *National survey of feature film and TV drama production, 2002-03*, 2003.

127 ABC, submission no. 22, p. 3.

128 Mr T. Burns, ABC, *Transcript of Evidence*, 27 August 2003, p. 1.

129 Mrs J. Buckland, ACTF, *Transcript of Evidence*, 27 August 2003, p. 44.

130 AFC, *Get the Picture Online*, 'Drama production for children', viewed 17 April 2004 at <http://www.afc.gov.au/gtp/mpkidstv.html>.

131 AFC, *Get the Picture Online*, 'Number, total production value and hours of drama programs for children (series, mini-series and telemovies) shot 1990-91—2002-03', viewed 21 May 2004 at <http://www.afc.gov.au/gtp/mpkidstvsummary.html>

- 2.95 Of the 11 children's productions made in 2002-03, six were live action and involved a budget of \$48.6 million of which \$45 million was spent in Australia. Five animated programs were produced, amounting to 29 hours, and worth \$19 million, of which \$15 million was spent in Australia.¹³²
- 2.96 The AFC reports that the number of co-produced children's programs increased from one each in 2000-01 and 2001-02 to three in 2002-03. Two of the co-productions were made with Canada and one with France. In addition, in 2002-03, one foreign series and one mini-series for children were produced. These had a total budget of \$7 million of which \$6 million was spent in Australia.¹³³
- 2.97 Australian children's television production is also successful internationally. The ACTF said that international sales of children's television product was crucial to the ongoing operation of the Australian children's television production sector:
- ... we are completely dependent on an international market to be sustainable and that the international market, over the last few years, has really been very slow. There has been a downturn in advertising revenues across the world and there has been a slowing down of buying product. There is also a reaction to American content in Europe which, as a by-product, has affected Australian producers, because Europe is a very strong market for our product.¹³⁴
- 2.98 The ACTF linked the creation of internationally successful programs with public investment and the operation of the Children's Television Standards and the Australian Content Standards:
- The children's drama quota has been in place for 21 years now. There is a huge wealth of wonderful programs that have been produced over that time, with significant government subsidy and support through investment through the Film Finance Corporation, 10BA investment or whatever. Often the commercial broadcasters screen things once or twice and then they will be out of their licence period. They are often sold around the world. We

132 AFC, *Get the Picture Online*, 'Drama production for children', viewed 20 April 2004 at <http://www.afc.gov.au/gtp/mpkidstv.html> and AFC, *National Survey of feature film and TV drama production, 2002-03*, 2003, p. 3.

133 AFC, *National Survey of feature film and TV drama production, 2002-03*, 2003, p. 4.

134 Mrs J. Buckland, ACTF, *Transcript of Evidence*, 27 August 2003, p. 39.

have hundreds of hours in our catalogue being sold around the world, but they are not actually on air.¹³⁵

- 2.99 The ACTF reports that it has sold titles it controls in some 100 countries.¹³⁶ However, the FFC was cautious about the future:

Unlike adult drama, children's drama continues to attract interest from overseas buyers, although such opportunities are diminishing as overseas markets continue to gear up their own producers.¹³⁷

Special effects and post production

- 2.100 Apart from image acquisition using the traditional motion picture or digital camera, the film industry also relies on image, sound and scene manipulation or creation. This is the special effects and post-production component of the film industry. The Committee interprets 'special effects' broadly to include image manipulation or creation—what is also called 'digital production'. This includes computer animation, visual effects and computer generated imagery.¹³⁸

- 2.101 Another element in film production is 'post production'. SPAA stated:

Post-production refers to the stage of production from the completion of image acquisition through to the striking of a release print or the creation of master videotape. It involves processes such as image and sound editing, special visual effects, music synchronization, colour grading and printing.¹³⁹

- 2.102 Information about the size and scale of the special effects and post production industry is limited. There is no disaggregated data, for example, in the AFC's *Get the Picture*.

- 2.103 The number of special effects and post-production houses operating in Australia does not appear to be published anywhere. AusFilm lists 12 in its publication, *The 2004 AusFilm Guide*. These enterprises are members of AusFilm. The Australian Media Facilities Directory¹⁴⁰ lists 33 enterprises.

135 *ibid.*, p. 46.

136 ACTF, *Annual Report 2002-03*, p. 25.

137 FFC, submission no. 70, p. 11. See ACTF, *Annual Report 2002-03*, p. 25.

138 Animal Logic, submission no. 83, p. 2.

139 SPAA, submission no. 33, p. 4.

140 <http://www.amfd.com.au>; using the search term: 'special effects'.

- 2.104 The Committee has not received information on the likely number of people employed in this sector. However, the AFC stated that post-production companies are characterised by the need for a permanent skilled work force and a continuous investment in new technology. The conversion to digital television was a case in point as it has required investment in new technology to service the demands of broadcasters.¹⁴¹
- 2.105 The AFC considers the Australian special effects and post-production sector is world-class and highly sophisticated with state-of-the-art facilities. The sector provides services for visual effects and post-production for feature films, television and commercials. Australian special effects and post production houses have contributed to such films as *The Matrix*, *The Matrix Reloaded*, *Mission Impossible 2*, and *Babe*. Australian special effects companies have received Oscars as well as Oscar nominations. The AFC stated that in 1999-2000 the value of the post-production sector was \$263 million, from \$103 million in 1993-94.¹⁴²
- 2.106 The lack of readily available information on this sector may result from it being seen as a component in film projects based in Australia, rather than a potentially independent industry that can—and does—attract projects on its own account.
- 2.107 The AFC made the point:
- Australia stands at the forefront of technological innovation in post-production and is capitalising on that internationally through the development of export markets. For example, part of the digital effects market leader Animal Logic's business is servicing the needs of clients in Japan and North America undertaking television commercial production in and for those markets. Asian feature filmmakers have also been attracted to Australia by the quality of the work that Australian firms undertake.¹⁴³
- 2.108 The Committee inspected special effects and post production facilities in Queensland and Sydney. Each enterprise reinforced the view that this sector is fast becoming an independent component of the film industry, securing work on its own account, often internationally,¹⁴⁴ independently, of a specific film project in Australia. It is, essentially, a fee-for-service

141 AFC, submission no. 58, p. 8.

142 *ibid.*

143 *ibid.*, p. 14. See also Animal Logic, submission no. 83, p. 2.

144 Cutting Edge Post, submission no. 20, p. 2. Cutting Edge Post told the Committee that some 40% of its work was international in origin; Sydney-based digital production house, Animal Logic, stated in its supplementary submission (submission 102, p. 2) that around 90% of its work came from abroad.

industry, although, as Animal Logic pointed out, it develops its own proprietary products that are commercialised.¹⁴⁵

- 2.109 The information available on the special effects and post-production sector in this country contrasts with that available on the same sector in the UK. In November 2003, the UK Film Council published the report of a study it had commissioned: *Post-production in the UK*. This was a detailed and comprehensive analysis of the UK post-production industry which included developing a list of issues for consideration, such as promoting the sector internationally.¹⁴⁶

Distribution

- 2.110 The film industry distribution system comprises film distributors, the cinema exhibition industry (the 'box office'), free-to-air and subscription television, video and DVD hire and video and DVD purchase. Like production, distribution has its peaks and troughs.

Cinema distribution

- 2.111 The past decade has, generally, been a growth period for cinema. The number of patrons has increased steadily in most years, as has the box office and gross receipts (box office plus other income). There has been a fall in the number of businesses in the industry but the number of screens has continued to rise.¹⁴⁷
- 2.112 Cinema patrons spent \$844.8 million on admissions in 2002, some \$32.4 million more than in 2001. The gross box office has grown by 277 per cent since 1988, however, the rise in admissions has not been as large, increasing 147 per cent. The growth in revenue in 2002 over 2001 was due to increases in cinema ticket price rather than the number of admissions.¹⁴⁸ In 2002, there were 92.5 million admissions, or nearly five per person, compared to 43 million admissions in 1990.¹⁴⁹

145 Mr Z. Nalbandian, Animal Logic, *Transcript of Evidence*, 4 September 2003, p. 2.

146 UK Film Council, *Post-production in the UK*, pp. 45–46, viewed 23 January 2004 at <http://www.ukfilmcouncil.org.uk/filmindustry/postprod>.

147 AFC, *Get the Picture Online*, Sandy George, 'Trends in cinema going', downloaded 14 January 2004 from: <http://www.afc.gov.au/gtp/wcessaytrends.html>. Data for earlier years is taken from: Australian Film Commission, *Get the Picture*, 6 ed., Sydney: Australian Film Commission, 2002, pp. 135–176.

148 AFC, *Get the Picture Online*, 'Numbers of Australian cinema admissions and gross box office, 1976-2002', viewed 14 January 2004 at <http://www.afc.gov.au/GTP/wcboadmission.html>.

149 *ibid.*

- 2.113 The increase in cinema attendance is most noticeable amongst older age groups. In 2002, 57 per cent of Australians aged 50 and over went to the cinema at least once, compared to 29 per cent in 1986. Since 1994 cinema-goers aged over 50 have been attending more frequently than those aged 35–49. In 2002, nearly 90 per cent of Australia’s 14 to 24-year-olds went to the cinema, an average of 10.2 times each.¹⁵⁰
- 2.114 When last audited, in 2000, there were 173 businesses engaged in the exhibition industry, compared to 460 businesses in 1979–80. In 1988 there were 712 screens, while at the end of 2002 there were 1,872 screens. At the end of June 2000, there were 173 businesses in the industry, operating 326 cinema sites and 17 drive-in sites. The number of cinema sites has remained largely unchanged since 1994, the number of screens increased considerably, and drive-in sites fell from 41 in 1994.¹⁵¹
- 2.115 At the end of June 2000, eight local businesses, each with an income of \$8 million or more, dominated the cinema industry. Between them, these employed 68 per cent of people in the industry, controlled 70 per cent of screens, gained 80 per cent of gross income, attracted 74 per cent of paid admissions and 86 per cent of the industry operating profit, before tax. The industry recorded an operating profit before tax of \$113 million in 1999–2000, a drop of six per cent on 1996–97.¹⁵²
- 2.116 At the end of June 2000, 9,282 people were employed in the motion picture exhibition industry.¹⁵³
- 2.117 Admissions are reported to have fallen in 2003 from 92.5 million (gross box office \$844.8 million) to 89.8 million (gross box office \$865.8m).¹⁵⁴ Australian cinema is dominated by big-budget productions made in the US. In 2003, US-produced motion pictures accounted for 66 per cent of all

150 AFC, *Get the Picture Online*, ‘Percentage of people in various age groups who had been to the cinema in the previous 12 months, and average number of visits, 1974–2002’, viewed 14 January 2004 at <http://www.afc.gov.au/gtp/wcimagepattern.html>.

151 AFC, *Get the Picture Online*, ‘Overview of the exhibition industry’, viewed 14 January 2004 at <http://www.afc.gov.au/GTP/wcovsummary.html>.

152 *ibid.*

153 This represented an increase of 20 percent since June 1997. Casual and part-time employees accounted for 81 percent of the labour force, some 7,492 people; 13 per cent or 1,196 people were permanent full-time employees; and permanent part-time employees made up six percent or 534 of employees. At the end of June 2000, women accounted for 56 per cent of employees or 5,162 in the industry, which was unchanged since 1997. Of all female employees, 84 per cent worked casually, compared to 77 per cent of male employees, AFC, *Get the Picture Online* ‘Overview of the exhibition industry’, viewed 14 January 2004 at <http://www.afc.gov.au/GTP/wcovsummary.html>.

154 AFC, *Get the Picture Online*, ‘Numbers of Australian cinema admissions and gross box office, 1976–2003’, viewed 2 May 2004 at <http://www.afc.gov.au/gtp/wcboadmission.html>.

pictures screened, while Australian pictures accounted for 8.5 per cent. France provided 4 per cent while the UK produced 9 per cent.¹⁵⁵

Table 2.7 Comparative box office performance, Australian vs foreign films, 2002

Origin	No of films	Per cent of films released	Per cent of box office	Average box office
Australia	22	8.5%	5.1%	\$1.7m
United States (mainly studio)	170	65.6%	83.2%	\$3.6m
United Kingdom	24	9.3%	10.4%	\$3.2m
Other (mainly Europe & Asia)	43	16.6%	1.2%	\$211,246
Total	259			

Source Compiled from: Australian Film Commission, *Australian films: 2002 box office share*. Downloaded 7 January 2004 from: http://www.afc.gov.au/downloads/policies/boxoffice02_bg.pdf.

2003: A bleak year for Australian cinema?

- 2.118 Many commentators considered 2003 a bleak year for Australian films and suggested there is a crisis in the film and television industry.¹⁵⁶ At the time of finalising this report, many final figures for Australian films have not been released. News reports suggest that in 2003 the Australian box office is likely to have improved over 2002 by about 2%, taking the total to about \$860.8 million. Of this, Australian films are reported to have taken about 3.7 per cent, or approximately \$31.8 million, for 20 titles.¹⁵⁷
- 2.119 If these reports are accurate, 2003 would be the worst result since 1999, when Australian films took three per cent of the box office, and down from 7.8 per cent in 2001 and 4.9 percent in 2002.¹⁵⁸
- 2.120 On 27 December 2003, the *Sydney Morning Herald* published a list of top-grossing Australian films in 2003, and a list of the top twenty grossing films in 2003. No Australian films appeared in the top 20.

155 AFC, *Get the Picture Online*, 'Numbers of Australian and overseas films screened in Australian cinemas, 1984-2003', viewed 2 May 2004, <http://www.afc.gov.au/gtp/wcfilmxcountry.html>.

156 See G. Maddox, 'Film industry hits eight-year low', *Sydney Morning Herald*, 18 November 2003; S. Hall, 'Oz films hard to swallow', *Sydney Morning Herald*, 8 November 2003; V. Roach, 'Have Aussie film-makers lost the plot', *Daily Telegraph*, 22 August 2003; D. Dale, 'Dramatic tension', *Sydney Morning Herald*, 31 October 2003. See also, Ambience Entertainment et al, submission no. 100, p. 15, Cr J. Grew, Gold Coast City Council, *Transcript of Evidence*, 25 July 2003, p. 3, and Mr J. Lee, Cutting Edge Post, *Transcript of Evidence*, 25 July 2003, p. 16.

157 D. Groves, 'The incredible shrinking AUD', *Variety.com*, 4 January 2004, viewed 14 January 2004 at <http://www.variety.com/article/VR1117897714?categoryid=13>.

158 AFC, *Australian films: 2002 box office share*, viewed 7 January 2004 at http://www.afc.gov.au/downloads/policies/boxoffice02_bg.pdf.

Table 2.8 'The Aussie flicks Australians didn't mind' in 2003

Film	Box Office Receipts
Ned Kelly	\$8.5m
Japanese Story	\$4m
Fat Pizza	\$3.5m
Bad Eggs	\$2.5m
Gettin' Square	\$2m

Source David Dale, 'Why the little fish made a big splash', *Sydney Morning Herald*, 27 December, 2003. Downloaded 27 December 2003 from: <http://www.smh.com.au/articles/2003/12/26/1072308673130.html>

Table 2.9 The films Australians watched in 2003: the top 20

Film	Box Office Receipts
Finding Nemo	\$37 million
The Matrix Reloaded	\$33.5m
The Two Towers	\$30m
Pirates of the Caribbean	\$25m
Bruce Almighty	\$20.5m
Chicago	\$19m
Terminator 3	\$19m
Charlie's Angels: Full Throttle	\$19m
The Matrix Revolutions	\$18m
X-Men 2	\$16.5m
8 Mile	\$16.5m
The Return of the King	\$16m (est.)
Catch Me If You Can	\$15m
Daddy Day Care	\$15m
Two Weeks Notice	\$15m
2 Fast 2 Furious	\$14m
American Pie: The Wedding	\$13m
Johnny English	\$12.5m
The Italian Job	\$11m
How to Lose a Guy in 10 Days	\$11m

Source David Dale, 'Why the little fish made a big splash', *Sydney Morning Herald*, 27 December 2003, viewed 27 December 2003 at <http://www.smh.com.au/articles/2003/12/26/1072308673130.html>.

Video and DVD

2.121 In 2002, 89 per cent of Australian homes had at least one video cassette recorder, while 27 per cent had two or more. Australians have adopted DVD technology quickly. In 1998, just 4,521 units were sold. In 2000, 129,203 were sold, rising to 903,284 in 2002. The dramatic increase followed a large price reduction from an average price of \$1,229 in 1998, to \$343 in 2002. The dramatic fall in price of DVD players, and the

availability of DVD programs resulted in 24 per cent of Australian homes having at least one player by 2002.¹⁵⁹ By January 2004, 64 per cent of Australia homes were reported to have a DVD player.¹⁶⁰

2.122 The spread of VCRs and then DVDs into Australian homes has created a video content sale and hire industry. The following table shows a dramatic increase in DVD content sales in recent years.

Table 2.10 Retail sales of videotapes vs DVD discs, 2000-02

Year	Retail Videotape sales [units]	Value	Retail DVD sales [units]	Value
2000	8.6m	\$174m	1.4m	\$49m
2001	9.1m	\$174m	4.3m	\$141m
2002	8.5m	\$155m	13.3m	\$398m

Source *Get the Picture the Picture, 6 ed., p. 179 and Get the Picture (online), viewed 15 January 2004 at <http://www.afc.gov.au/gtp/wvfast.html#Raj46228>*

2.123 Wholesale sales of video content rose substantially between 2001 and 2002, to the extent that wholesale sales of video products represent a market almost as big as the box office.

Table 2.11 Comparison of wholesale videotape and DVD disc sales with box office takings

Year	VHS tape sales	DVD sales	Combined	Box office
2001	346.9m	243.1m	590.0m	812.4
2002	323.3m	502.7m	826.0m	844.8

Source *Combined from: Get the Picture (online), 'Numbers of Australian cinema admissions and gross box office, 1976-2002' and 'Fast Facts: Video industry' (downloaded 15 January 2004 from <http://www.afc.gov.au/gtp/wcboadmission.html> and <http://www.afc.gov.au/gtp/wvfast.html#Raj46228>).*

2.124 Over the past few years, distributors' income from the sales of VHS tapes and DVD discs for sale to consumers has overtaken revenue from the sale of video product for rental and, within this segment, DVD products outstrip the sale of VHS tapes. Consumers are becoming collectors of content, rather than remaining only pay-per-view customers of video hire outlets.¹⁶¹

159 AFC, *Get the Picture Online*, 'Retail sales of DVD players, 1999-2002', viewed 23 January 2004 at <http://www.afc.gov.au/gtp/wvauvdvd.html>.

160 S. Meacham, 'Digital boom puts us all in the picture', *Sydney Morning Herald*, 23 January 2004, viewed at <http://www.smh.com.au/articles/2004/01/22/1074732532686.html>.

161 S. Meacham, 'Digital boom puts us all in the picture', loc. cit.

Table 2.12 Comparison: video content distributors revenue from sale for retail vs sale for hire

Year	VHS sell-through for retail sale	VHS for rental to video hire outlets	DVD sell-through for retail sale	DVD for rental to video hire outlets	Total
2001	\$169.7m	\$177.2m	\$207.6m	\$35.5m	\$590.0m
2002	\$192.4m	\$130.9m	\$405.4m	\$97.3m	\$826.0m

Source *Get the Picture*, 'Revenue to distributors from wholesale sales of video product, 1990–2002', viewed 15 January 2004 at <http://www.afc.gov.au/gtp/vvwsrevenue.html>.

- 2.125 There were 1,166 video hire outlets in Australia employing 11,615 people¹⁶² and video hire enterprises earned \$595.2 million in 1999–2000, when data was last collected. Of this income, 83 per cent came from rental of videos, DVDs, video games and video-related goods. Australians hired 151.9 million video tapes and 1.3 million DVDs and 7.6 million games in 1999–2000.¹⁶³
- 2.126 A compulsory video classification scheme began in 1984. The video content market is dominated by titles from the US (61.4 per cent in 2002), with titles from Australia at 11.5 per cent and the UK at 9.4 per cent.¹⁶⁴

Free-to-air television

- 2.127 As at 30 June 2000 there were 41 private sector television broadcasters, comprising 34 commercial free-to-air broadcasting businesses and seven pay television broadcasting businesses.¹⁶⁵
- 2.128 Australians also have access to two high-quality free-to-air public broadcasters, the SBS and ABC. This diversity provides a range of choices in programs. Although the commercial-free to air broadcasters attract larger audiences than either of the public broadcasters, on average on any day, 20.1% of the audience is viewing a public broadcast.

162 66 per cent employees were casual workers. In June 2000 there were 18 per cent permanent full-time, 9 per cent permanent part-time employees and 7 per cent working proprietors and partners of unincorporated businesses: AFC *Get the Picture Online*, 'Key statistics on businesses in the video hire industry, 1999/2000' viewed 15 January 2004 at <http://www.afc.gov.au/gtp/vvkeystats.html> and 'Fast acts: Video industry', viewed 15 January 2004 at <http://www.afc.gov.au/gtp/vvfast.html>.

163 AFC, *Get the Picture*, op. cit., pp. 178 and 184.

164 AFC, *Get the Picture Online*, 'Numbers of Australian and overseas video tapes and DVDs classified, by country of origin, 1984–1999–2000'; viewed 15 January 2004 at <http://www.afc.gov.au/gtp/vvprodxcountry.html>

165 ABS, *Year Book Australia 2003*, 'Service Industries, Film, video and television industries', p. 6, viewed 17 April 2004 at <http://www.abs.gov.au/Ausstats/abs%40.nsf/46d1bc47ac9d0c7bca256c470025ff87/5285c9b221ad76c2ca256cae001611d9!OpenDocument>

Table 2.13 National audience share, 2003

ABC	SBS	SEVEN	NINE	TEN
15.6%	4.5%	25.5%	31.1%	23.2%

Source Scott Ellis, 'We're glued to reality TV', *Sydney Morning Herald*, 1 December 2003.

2.129 By comparison with international public broadcasters, the ABC attracts a very large audience:

The CBC has a share of approximately eight per cent of the audience; in America PBS has a declining share, somewhat below two per cent; and BBC2 has a share of about 10 per cent. We currently have a share of about 16 to 17 per cent. Audiences in Australia definitely affirm their commitment to and their pleasure in what the ABC does. We perform very strongly.¹⁶⁶

2.130 Each day, according to the AFC, the average Australian watches three hours and thirteen minutes of television. Each night one third of all Australians are viewing television between 6 pm and midnight. The peak viewing time is between 7 pm and 9 pm when almost two thirds of Australian households are viewing television. Within any given week, 94 per cent of the adult population will view television.¹⁶⁷

Public broadcasters

2.131 Both public broadcasters devote considerable resources to fostering Australian content, across a diverse range of genres. Both broadcasters also have programs in place to encourage emerging program makers and the development of digital content.¹⁶⁸

2.132 The ABC stated:

The ABC plays a major role in developing the Australian film, television and new media industry in terms of producing Australian content and in training personnel.¹⁶⁹

2.133 In its submission the ABC set out its activities, not only as a broadcaster, but as an element of the Australian film industry.¹⁷⁰ It has long standing relationships with the federal film funding agencies: the AFC, Film

166 Ms S. Levy, ABC, *Transcript of Evidence*, 27 August 2003, p. 4.

167 AFC, *Get the Picture*, op. cit., p. 208.

168 ABC, submission no. 22, p. 5 and SBS, submission no. 66, p. 2.

169 ABC, submission no. 22, p. 2.

170 It operates as a major producer and co-producer with the independent film and television production sector and is a major purchaser of content from the Australian film industry through pre-purchasing and acquisition arrangements.

Finance Corporation Australia, Film Australia and ScreenSound Australia.¹⁷¹

- 2.134 In 2002–03 the ABC had 5,011 employees representing 4,321 effective full time employees. It received an appropriation of \$807.7 million in 2002–03 and received \$130 million from other sources.¹⁷²
- 2.135 In 2002–03 between 6 am and midnight, 64 per cent of the network broadcast hours carried Australian programs, of which 47.1 per cent was first release. This rose to 73.1 per cent of total network broadcast time being Australian programs and 68.5 per cent first release Australian programs, 6 pm to midnight.¹⁷³ The genre share for Australian and foreign programs is shown in the following table.

Table 2.14 ABC programs (24 hours), by genre and source, 2002-2003

	Arts & Culture	Children's	Documentary	Drama	Movies
Australian	141 [first release]	85 [first release]	60 [first release]	31 [first release]	6 [first release]
	103 [repeat]	431 [repeat]	105 [repeat]	161 [repeat]	15 [repeat]
	Total 244	Total 517	Total 165	Total 192	Total 21
Foreign	54 [first release]	219 [first release]	165 [first release]	339 [first release]	30 [first release]
	36 [repeat]	1041 [repeat]	148 [repeat]	361 [repeat]	1155 [repeat]
	Total 90	Total 1260	Total 312	Total 700	Total 1185
Total	334	1777	477	892	1206

Source *ABC Annual Report, 2002-03, p. 167.*

- 2.136 The SBS, Australia's other national public broadcaster, employed 872 people in 2002-03, of which 440 were listed as directly employed in the television division and 44 in the new media division.¹⁷⁴ It had a total budget of \$174.238 million, of which \$137.452 million was an appropriation by Parliament.¹⁷⁵
- 2.137 SBS states it broadcast more documentaries, screened more films and broadcast more programs of interest to Aboriginal and Torres Strait Islanders than any other Australian free-to-air network.¹⁷⁶ The share for

171 The ABC stated it works collaboratively with state film funding bodies; for example, the New South Wales Film and Television Office, Film Victoria, Pacific Film and Television Corporation, South Australian Film Corporation (SAFC), ScreenWest and Screen Tasmania, ABC, submission no. 22, p. 1.

172 ABC, *Annual Report, 2002-03*, pp. 39 and 186.

173 *ibid.*, p. 121.

174 SBS, *Annual Report, 2002-03*, p. 64.

175 *ibid.*, p. 97.

176 *ibid.*, pp. 12–14.

some categories of Australian and foreign programs is shown in the following table.

Table 2.15 SBS programs (hours broadcast), by genre and source (extracts), 2002-03

	Animation	Arts	Documentaries	Drama / Drama series	Features	Educational
Australian	24.11	11.08	214.48	11.21	19.64	108.82
Foreign	29.17	138.90	726.80	194.94	1,185.35	0.0

Source SBS, *Annual Report, 2002-2003*, p. 133.

Commercial free-to-air broadcasters

- 2.138 Australia has three commercial free-to-air national networks: Seven, Nine and Ten. In 2000, commercial free-to-air stations were owned by eight companies, one of which was unlisted. In 2000, the commercial, free-to-air television industry employed a total of 7,807 people.¹⁷⁷
- 2.139 The commercial free-to-air television industry generated advertising revenues of \$2,749 billion in 2001-02, of which \$2,149 billion was from the five metropolitan markets, while \$516 million was earned regionally. The total income for the free-to-air television industry was \$3.233 billion.¹⁷⁸
- 2.140 The commercial free-to-air television industry spent \$1.007 billion acquiring programs in 2001-02, including, \$706.3 million on Australian programs and \$300.7 million on foreign programs.¹⁷⁹ Commercial broadcasters spent 13 per cent of local program expenditure on drama (which includes children's programs) and 57 per cent on all other programs. This contrasts with expenditure on foreign drama of 25 per cent of their program acquisition budgets on foreign drama production and 4 per cent on other genres.¹⁸⁰

177 6,392 were full-time workers and 1,415 were part-time, AFC, *Get the Picture Online*, 'Numbers employed by free-to-air TV broadcasters, 1994-2000', viewed 15 January 2004 at <http://www.afc.gov.au/gtp/wftvisemployment.html>.

178 AFC, *Get the Picture Online*, 'Estimated revenues from various sources for free-to-air television services, 1996-97 and 2001-02', viewed 15 January 2004 at <http://www.afc.gov.au/gtp/wftvisrevenue.html>.

179 AFC, *Get the Picture Online*, 'Spending on programs of various types, local and imported, by commercial free-to-air services in Australia, 2001-02', viewed 15 January 2004 at <http://www.afc.gov.au/gtp/wftvprogexpenditure.html>.

180 AFC, *Get the Picture Online*, 'Proportion of spending on Australian and imported programs, drama and other, by commercial free-to-air services in Australia, 1990/91 to 2001/02, and proportion of hours broadcast, 1998', viewed 15 January 2004 at <http://www.afc.gov.au/gtp/wftvproghours.html>.

- 2.141 Total programming expenditure exceeded \$1 billion in 2001-02. Since 1996-97, spending on Australian programs has risen by 29 per cent. In the same period, spending on imported programs rose by 40 per cent. Drama programs account for most expenditure on imported programs, and expenditure has grown by 28 per cent since 1996-97. In the same period, spending on Australian drama has risen 56 per cent. Spending on imported programs other than drama doubled in 2001-02, to \$35 million. Commercial broadcasters' spending on Australian documentary programs has fallen by 57 per cent since 1996-17. In 2001-02 it fell below \$3 million.¹⁸¹

Table 2.16 Spending on programs of various types, local and imported, by commercial free-to-air services in Australia, 2001-02

	Drama	Documentary	Children's drama
Australian	\$114.7m	\$2.9m	\$13.5m
Foreign	\$255.9m	n.a.	n.a.

Source *Get the Picture (online)*, 'Spending on programs of various types, local and imported, by commercial free-to-air services in Australia, 1990-91 to 2001-02', viewed 15 January 2004 at <http://www.afc.gov.au/gtp/wftvprogexpenditure.html>.

- 2.142 As a condition of their broadcasting licences, commercial television stations must comply with certain Australian content and children's programming standards. The ABA's annual report evaluates broadcasters' compliance with content standards and indicates that all broadcasters complied with the legislation.¹⁸²
- 2.143 Interestingly, broadcasters sometimes do exceed the minimums. The main example in 2002 was Channel Seven, which substantially exceeded the minimums in Australian drama and Australian documentary. However, in the case of children's programs, all broadcasters merely complied with the requirements.¹⁸³ The three national commercial networks in the metropolitan areas broadcast Australian content 59.36 per cent of the time, 6 am to midnight.¹⁸⁴
- 2.144 The ABA compliance study shows the broadcast hours per annum of first-run Australian drama, documentary and children's programs.

181 AFC, *Get the Picture Online*, 'Spending on programs of various types, local and imported, by commercial free-to-air services in Australia, 2001-02', loc. cit.

182 ABA, 'Compliance with the Australian Content Standard: 2002', viewed 15 January 2004 at http://www.aba.gov.au/tv/content/ozcont/compliance/Documents/compl_02.rtf.

183 See Mrs J. Buckland, ACTF, *Transcript of Evidence*, 27 August 2003, p. 41.

184 ABA, 'Compliance with the Australian Content Standard: 2002' loc. cit. This is obtained by adding the percentage of broadcast time, 6 am to midnight, in which Australian programs are broadcast and averaging the figure over the number of stations.

Table 2.17 Average hours broadcast, Australian produced content, 2002

Network (av)	Seven	Nine	Ten	Content (p.a.)
Drama	240.6	106.3	168	514.9 ¹⁸⁵
Documentary	25.4	21.83	22	69.23
Children's	134.9	130.6	130.5	396

Source ABA, 'Compliance with the Australian Content Standard: 2002', viewed 15 January 2004 at http://www.aba.gov.au/tv/content/ozcont/compliance/Documents/compl_02.rtf.

Subscription television

- 2.145 Subscription television offers a range of television content to consumers for a fee. Services include movie, news, children's, documentary/education, entertainment/drama, sports, music, ethnic language, and pay per view event channels, as well as radio services and interactive television services. The channels are owned by more than 30 different media companies, 12 of which are Australian owned or based.¹⁸⁶
- 2.146 Subscription television enterprises employed a total of 2,861 people in 1999-2000; 2,379 were full-time and 482 were casual employees. Total revenues for subscription television amounted to \$910 million, of which \$789.1 million was from subscriptions. The Australian Subscription Television Association (ASTRA) stated that over \$8 billion has been invested in subscription television infrastructure, capital, facilities, productions, licence fees and services since its inception.¹⁸⁷ Nevertheless, the AFC reports subscription television lost some \$675.8 million in 1999-2000—the last year for which results have been posted by the AFC—although certain channels made a profit in the 12 months to March 2001.¹⁸⁸
- 2.147 Subscription television is available throughout Australia and, at June 2003, the three main pay TV operators, Foxtel, Optus Television and Austar, had 1.5 million subscribers out of a potential 7.1 million (or about 21 per cent) TV households.¹⁸⁹ Over 5 million Australians have access and a study in 2000 revealed that at any one time between 7 and 11 per cent of TV households are viewing.¹⁹⁰

185 This amounts to 7.83 per cent of the time between 6 am and midnight.

186 ASTRA, submission no. 60, p. 2.

187 *ibid.*

188 AFC, *Get the Picture Online*, 'Pay television in Australia: Trends and issues', viewed 15 January 2004 at <http://www.afc.gov.au/gtp/wptvanalysis.html>.

189 AFC, *Get the Picture Online*, 'Pay TV subscriber numbers, total and by operator, 1995-2003', viewed 15 January 2004 at <http://www.afc.gov.au/gtp/wptvsubsxops.html>.

190 ASTRA, submission no. 60, p. 2. and AFC, *Get the Picture Online*, 'Pay TV's share of total viewing within homes with TVs, by day of the week, 2000', viewed 15 January 2004 at <http://www.afc.gov.au/gtp/wptvaudience.html>.

- 2.148 In the homes that do subscribe, non-free-to-air channels accounted for a little over half of total household television viewing as at the start of August 2003. The viewing share is spread across more than 40 channels, and the AFC reports that the top-rating subscription channel rarely records more than a 5 per cent share and most channels generally achieve less than 1.3 per cent. The typical subscription channel is a specialist narrowcast service. According to the AFC, subscription television is different—in terms of format and audience appeal—from any of the three commercial free-to-air channels and the ABC and SBS.¹⁹¹
- 2.149 As noted, since 1 July 1999, licence holders and channel providers of a subscription television service who provide a subscription TV drama service must spend 10 per cent of their total program expenditure on new Australian content and make up any shortfalls in the next financial year. In 2001-2002 expenditure by the 17 pay TV drama channels on new eligible Australian drama programs totalled \$21 million. This included investment in or payment of licence fees for a range of programs such as the drama series *White Collar Blue*; the features such as *The Missing*, *My Mother Frank* and the telemovie *Change of Heart*.¹⁹²
- 2.150 The scheme was introduced because the former voluntary scheme applied only to program expenditure by pay TV licensees. In practice, the expenditure was made by channel providers. These entities were outside the scope of the legislation, and so they could not be forced to meet the expenditure requirement. Although the ABA encouraged expenditure on a voluntary basis few subscription TV entities met the 10 per cent spending requirement.¹⁹³
- 2.151 The AFC referred to the ABA's consideration of two amendments to the conditions of licence for pay TV licence holders and channel providers. One would allow script development expenditure to count towards the 10 per cent expenditure requirement, even if the project did not proceed to production. A project would be eligible if it had Australian or New Zealand producers and writers. The second amendment would require a minimum budget expenditure on new documentary programming for subscription TV documentary channels.¹⁹⁴

191 AFC, *Get the Picture Online*, B. Peters, 'The free-to-air television industry in Australia: Trends and issues', viewed 15 January 2004 at <http://www.afc.gov.au/gtp/wftvanalysis.html>.

192 AFC, *Get the Picture Online*, 'Aggregate expenditure by pay TV drama services on new Australian drama, 1995/96-2001/02'; viewed 15 January 2004 at <http://www.afc.gov.au/gtp/wptvexpenditure.html>.

193 AFC, *Get the Picture Online*, 'Australian content on pay TV', viewed 15 January 2004 at <http://www.afc.gov.au/gtp/wptvregulation.html>.

194 *ibid.*

2.152 ASTRA, the peak body for subscription television and narrowcast radio, stated its members:

... invest millions of dollars and broadcast thousands of hours each year of Australian film and television productions across all television genres ... As a consequence, ASTRA's members are responsible for:

- promoting and making available to Australian audiences a diverse range of broadcasting services through a variety of genres;
- facilitating the development of the Australian broadcasting and production industry through its own investment and productions (both "commissioned" and "in-house"); and
- continuing to develop and reflect the Australian identity, character and the broad diversity of Australian culture like no other broadcast medium through its targeted niche programming.¹⁹⁵

Film: the economic, social and cultural benefits

Economic benefits

2.153 The economic benefits of the film industry are usually considered in straightforward terms: employment, foreign investment, export generated revenue, revenue generated domestically, and taxation. For example, the SBS stated that a recent ABS study found for every \$1 million invested, 37 full-time jobs were created.¹⁹⁶ Despite the film industry down-turn in 2002–03, there are significant economic benefits already accruing to the Australian community and many opportunities await:

Australia has an opportunity to transform its many creative cottage producers into world-class producers and exporters of creative content, applications and services. A vibrant Creative Digital Industry will shift Australia from being a net importer of over \$1 billion of content in 2000/2001 to being a potential net exporter of \$1.5 billion by 2010.

On the other hand if Australia fails to become a globally competitive exporter it is estimated that it will see its traditional and digital media balance of trade deficit blow out to over - \$3 billion by 2010.¹⁹⁷

195 ASTRA, submission no. 60, pp. 2-3.

196 SBS, submission no. 66, p. 6.

197 P. Higgs & T. Kennedy, op. cit., p. 7.

2.154 However, the economic benefits of screen production go beyond the readily apparent, and may include:

- increased employment in the film, television and other related industries;
- increased demand for Australian goods through international exposure for Australia;
- increased awareness of Australian creative talent and abilities;
- increased foreign investment in Australia;
- increased exports of Australian products;
- increased tourism expenditure; and
- increase in Australia's skills base.¹⁹⁸

2.155 A clear economic benefit is the development of tourism and raising Australia's profile internationally. A successful international film that features Australia acts as free advertising for the country.¹⁹⁹ For example, the *Lord of the Rings* has greatly enhanced New Zealand's profile. Given these synergies, the Committee considers that the film, communications and information technology agencies in this inquiry could work more with the tourism agencies. The possibilities here to 'break down the silos' are further discussed in the section on the Australian brand in Chapter 6.

2.156 In their report, Higgs and Kennedy detail other effects of the creative digital industries, to which film and electronic games are central:

The success of the Creative Digital Industry has significant flow-on effects for the wider economy including:

- creative industries (media, advertising, fashion, software, etc.)
- Digital Content users (health, education, defence, finance, tourism, transport, etc.)
- technical applications (information management, content delivery)

Establishing a Creative Digital Industry that is efficient in the design, production and commercialisation of information and intellectual property of other industries can enable substantial improvements in the efficiency in those other industries and sectors.²⁰⁰

2.157 Moreover, the economic effect of investment in the creative industries is much higher than any other sector, except education, Higgs and Kennedy report. They contend 'An investment by government to increase the level of demand and hence domestic production within the Creative Digital

198 SPAA, submission no. 33, p. 3.

199 A point also made by Mr J. Lee, Cutting Edge Post, *Transcript of Evidence*, 25 July 2003, p. 15.

200 P. Higgs & T. Kennedy, op. cit., p. 13.

Industry will have a 23% higher positive impact on the overall economy than a similar investment in primary industry'²⁰¹ and:

... an increase of \$1M in demand for domestic films would flow through to increased production which would require additional purchases from accountants, carpenters, electrical suppliers, computer suppliers, real estate rental etc. that are not normally considered to be part of the film industry. Each new purchase increase can also trigger further purchases from their suppliers in a "flow on" effect.²⁰²

2.158 The film and electronic game industries create content, and content that is marketable generates ongoing income from control of its copyright. For example, Australia's copyright industries generated in 1999-2000, according to the Australian Interactive Media Industry Association (AIMIA), \$19.2 billion in industry gross domestic product—about 3% of Australia's gross domestic product.²⁰³ Higgs and Kennedy observed:

... unlike coal and iron ore, creativity and its outputs are non-exhaustible resources. There is no limit to creativity and each output can be sold again and again to different people, in different markets, at different times. The "cost of goods" of satisfying each new customer may approach zero once the product has been "created".²⁰⁴

2.159 Technology, and a society's capacity to adopt it and adapt to it, is the 'hard' foundation of the 'Post Industrial' knowledge society. The film and electronic game industries are said to underpin the knowledge society. They provide one of the drivers whereby Australia can develop and retain the requisite skills-base and remain in the world economic scene by producing the knowledge (creative content and its products) which will be the commodity sold domestically and globally. The Film Industry Broadband Resources Enterprise (FIBRE) made it clear where the opportunities lie:

The knowledge and experience that resides within the creative industry sector is increasingly going to play a significant role in the management of communications of the future...

Communications throughout society are becoming faster, more intensive, and more image dependent. Film and television program makers and games developers have the skills to manage

201 *ibid.*, p. 15.

202 *ibid.*

203 AIMIA, submission no. 42, p. 4.

204 P. Higgs & T. Kennedy, *op. cit.*, p. 7.

this trend to best advantage, to the general benefit of the country.²⁰⁵

Social and cultural benefits

2.160 The fact that the creative industries sit at the centre of our national life and identity was referred to in many submissions. The government of South Australia put this view:

As well as making a substantial economic impact, these industries are vital to the development of Australia's identity, to the fabric of our evolving culture, and to the perception of Australia and Australians at an international level.²⁰⁶

2.161 The creative industries portray Australians to themselves and to others. They can foster unity and tolerance.²⁰⁷ The Media Entertainment and Arts Alliance pointed cited the Universal Declaration on Cultural Diversity adopted by the 31st General Conference of UNESCO:

The advent of globalization brings in its wake the grave danger of the standardization of cultures and of the reduction of intellectual works to the level of commercial products.

Cultural diversity widens the range of options open to everyone, it is one of the roots of development, understood not simply in terms of economic growth, but also as a means to achieve a more satisfactory, intellectual, emotional, moral and spiritual existence.²⁰⁸

2.162 David Gonski, in his *Review of Commonwealth assistance to the film industry*, filled out these ideas:

Film and television productions are an integral part of Australian life. They expose us to others' dreams and visions, tell our stories, show us to ourselves and others and ensure that future generations can see into our lives as we have lived them. At the end of the 20th century, they have emerged as the most accessible of all cultural activities and a medium in which Australian creators are able to reach the world.

A vibrant Australian film and television industry can play a key role in:

205 FIBRE, submission no. 50, p. 5.

206 Government of South Australia, submission no. 94.1, p. 3

207 NSW Film and Television Office, submission no. 56, p. 4 and SBS, submission no. 66, p. 5.

208 Media, Entertainment and Arts Alliance, submission no. 59, p. 4.

- defining and exploring what it is to be Australian;
- encouraging national maturity and independence through a developed awareness of self and the capacity to honestly appraise that self image;
- recognising and exploring our own diversity;
- promoting a more inquisitive, imaginative and thoughtful society;
- projecting the diverse images of Australia both nationally and internationally; and
- providing for current and future generations an historical record of contemporary issues and events that illustrate life in Australia.²⁰⁹

2.163 Successive Australian governments have supported Australia's film industry in order to advance cultural objectives and enrich the lives of Australians.²¹⁰ This is good public policy and especially important in an age of globalisation. The public policy task is to develop specific policy instruments that promote cultural objectives and foster these industries so that Australians are able to express their identity, enjoy their own culture, and also benefit from the opportunities that the cultural industries will offer in the future.

209 D. Gonski, *Review of Commonwealth assistance to the film industry*, Canberra: Department of Communications, Information Technology and the Arts, 1997, p. 17. The report is available at http://www.dcita.gov.au/download/0,2118,4_112676,00.doc.

210 *ibid.*

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

Introduction

- 3.1 This chapter examines Australia's electronic games industry, in terms of its size, scale and benefits. That is, the chapter deals with the terms of reference that were considered in the previous chapter but in the context of electronic games:
- the current size and scale of Australia's film, animation, special effects and electronic games industries (term of reference (a)); and
 - the economic, social and cultural benefits of these industries (term of reference (b)).
- 3.2 In the second part of this chapter the Committee considers an issue that emerged when the size and scale of the film, animation, special effects and games industries were being scrutinised. This is the quality of information on those industries (beginning at paragraph 3.38).

Electronic games in Australia

- 3.3 Electronic computer games were first devised in 1961 and operated on mainframe computers that occupied the entire floor space of a small house. It was not until 1974 that home video games were available to domestic consumers. A further decade passed before the modern-day,

mass-marketed video game industry emerged, when the Nintendo Corporation introduced the 'Nintendo Entertainment System'.¹ From this time in the early 1980s—the beginning of the modern electronic games industry—Melbourne-based company Beam Software had been involved in developing electronic games.²

Size, scale and employment

- 3.4 The Australian electronic games industry has developed substantially. In 1996 six Australian companies were developing electronic game software. By 2003 this number had increased to over 50.³ Growth appears to have been fostered by the early development of Beam Software. The Committee was told, for example, that Beam Software had a similar effect to that of Crawford Productions a decade or two earlier, with ex-Beam personnel moving on, in time, to establish their own companies.⁴
- 3.5 Most Australian game developers work from the eastern seaboard. Over 50 per cent are in Victoria⁵ (mainly Melbourne). A Government of Victoria site lists 30 game developers in that state.⁶ The Committee was informed that in Queensland there are 18 game developers, mostly in the south-east.⁷ There are also companies in every other state and the ACT.⁸ The largest publishers are based in Melbourne, as is the Game Developers' Association of Australia (GDAA).⁹

1 Interactive Digital Software Association, *State of the Industry Report: 2000–01*, p. 3.

2 Mr M. Bishop, Multimedia Victoria, *Transcript of Evidence*, 28 August 2003, pp. 28–29.

3 Invest Australia, *Computer Games*, viewed 7 January 2004 at <http://www.investaustralia.gov.au/media/Comp%20Games%20snapshot.pdf>.

4 Film Victoria, submission no. 85, p. 3.

5 Film Victoria, submission no. 85. *Wired* magazine referred to Melbourne as one in a group of four 'Global Hotspots' for game development, Anon., 'Gaming's Global Hot Spots', *Wired*, Issue 11.12, December 2003, viewed 9 January 2004 at <http://www.wired.com/wired/archive/11.12/start.html?pg=10>.

6 Multimedia Victoria, 'Computer Games', viewed 7 January 2004 at <http://www.mmv.vic.gov.au/gameplan>. See also Software Engineering Australia, 'Victorian computer game industry', *Software*, October, 2002, viewed 6 January 2004 at [http://www.mmv.vic.gov.au/Web/MMV/MMV.nsf/ImageLookup/publications/\\$file/seaoct02MMV52_p55.pdf](http://www.mmv.vic.gov.au/Web/MMV/MMV.nsf/ImageLookup/publications/$file/seaoct02MMV52_p55.pdf).

7 Queensland Game Developers Cluster, submission no. 78, p. 1.

8 Austrade, submission no. 37, pp. 21–24, Bungarra Software, submission no. 41, GDAA, submission no. 54, p. 4.

9 Film Victoria, submission no. 85, pp. 11–12.

3.6 The international game developers and publishers in Melbourne include:

- Infogrames (France), the world's fourth largest publisher, which has its Asian regional headquarters for development and publishing in Melbourne;
- US publisher Acclaim Entertainment, which has its Asia-Pacific headquarters in Melbourne;
- US publisher THQ, which has its Asia-Pacific headquarters in Melbourne;
- Electronic Arts (US), which has distribution, sales and marketing operations in Victoria; and
- Nintendo Australia (Japan), which has distribution, sales and marketing operations in Victoria.¹⁰

3.7 Nationally, the GDAA stated, the game development industry employs over 650 people,¹¹ while other sources put the figure at around 700.¹² The Queensland Game Developers Cluster stated that Queensland's 18 game development companies employ approximately 300 people.¹³ The industry in Victoria is said to employ over 300 people.¹⁴

Structure of the industry

3.8 The Australian game industry comprises enterprises of different sizes undertaking different activities in the production chain. The Committee was told, for example, that the game industry in Queensland comprises these types of enterprise:

1. Start-ups and pre-start-up firms which possess technical skills but lack business skills and/or capital for growth;
2. Small to medium enterprises (SME's) with teams of 4 to 10 people. They generally have produced one or two games under contract or may have produced an electronic proof of concept (EPOC) to demonstrate to potential publishers.

10 *ibid.*, p. 11 and Software Engineering Australia, 'Victorian computer game industry', loc. cit.

11 GDAA, submission no. 54, p. 8.

12 The Allen Consulting Group, *Game industry development strategy*, October 2003, p. 13.

13 Queensland Game Developers Cluster, submission no. 78, p. 3.

14 Multimedia Victoria, 'Computer Games', loc. cit. See also Software Engineering Australia, 'Victorian computer game industry', loc. cit.

These SME's also typically lack business skills and/or capital for growth;

3. Large indigenous firms with teams of over 100. They have a strong record producing games for various platforms; for example, Playstation, Gamecube, Xbox, PC and handheld devices;
4. Large corporates and major multinational games companies. These companies may be publishers as well as producers.¹⁵

3.9 This structure appears to mirror the structure of the industry at a national level.¹⁶

3.10 The Committee was told that for the most part the industry operates on a fee-for-service basis whereby international publishers provide funding for game development, and retain ownership of the intellectual property and enjoy the benefits generated by it.¹⁷ Although Australian game development enterprises have enjoyed some notable successes¹⁸ it would appear that there is only a small local investment in game development and the related development of Australian intellectual property—a situation that the Committee was told the industry and government wanted to change.¹⁹

Economic benefits and market size

3.11 There are two aspects to the Australian electronic games market: domestic and international. Given Australia's population base, the existing and potential domestic market is and will remain small in global terms. The domestic market is not large enough to support a viable development industry.²⁰ Although Australia has one of the highest per capita consumptions of entertainment products (hardware and software) in the world, it is a small market by sales volume.²¹ This claim by the GDAA is

15 Queensland Game Developers Cluster, submission no. 78, p. 1.

16 The Allen Consulting Group, *Game industry development strategy*, 8 October 2003, p. 10.

17 Film Victoria, submission no. 85, p. 11 and Mr G. Siegele, Ratbag Services, *Transcript of Evidence*, 30 September 2003, p. 8.

18 For example, according to Invest Australia, 'Barbie Beach Vacation, Carmageddon, Dark Reign, Grand Prix Challenge, Jackie Chan Adventures, Le Mans 24 Hours, Planet of the Apes, South Park Rally, Spiderman, Ty the Tasmanian Tiger, Trainz and Wipeout are among more than 200 Australian-made games played around the world'. Invest Australia, *Computer Games*, loc. cit.

19 Mr G. Siegele, Ratbag Services, *Transcript of Evidence*, 30 September 2003, p. 8.

20 GDAA, submission no. 54, p. 9.

21 *ibid.*, p. 7.

supported by the Allen Consulting Group which reported that Australian games industry turnover represents about 0.25 per cent of the global wholesale market for game software, while the overall retail market in Australia is slightly more than one per cent.²²

3.12 Nevertheless, the domestic appetite for electronic games has matched or exceeded that seen abroad in recent years, with growth in consumption being 39 per cent higher in 2002 than 2001. The GDAA stated that Australians spent over \$2 million each day on interactive computer games.²³ This is similar to the amount spent on viewing films in cinemas and exceeded the income from the music and video industries.²⁴

Table 3.1 Growth in Australian game industry, 2001 and 2002

Game item	2001	2002
Retail value - hardware	\$256.4m	\$405.5m
Retail value - software	\$336.6m	\$418.5m
Games classified	583	747
Per cent - Australian	2%	n.a.
Percent - United States	38%	n.a.

Source Inform Pty Ltd, cited by AFC, *Get the Picture (online)*, downloaded 7 January 2004 from <http://www.afc.gov.au/gtp/wnmfast.html#Raj73159>.

3.13 A common perception is that electronic games are played predominantly by adolescent boys, in isolation.²⁵ The Interactive Entertainment Association of Australia (IEAA) stated that in Australia 75% of computer game users are between the ages of 18 and 39, while 20% are over 39 years old.²⁶ Research conducted by the Interactive Digital Software Association (IDSA), a US industry association, indicated that the common perception as to the sex and age of players is mistaken.²⁷ This seems to indicate that

22 The Allen Consulting Group, *Game industry development strategy*, 8 October 2003, pp. 12 & 13.

23 GDAA, submission no. 54, p. 7. The Interactive Entertainment Association of Australia put the figure at \$2.25million. See submission no. 67, p. 1.

24 Interactive Entertainment Association of Australia, submission no. 67, p. 1.

25 Film and Television Institute of Western Australia, submission no. 2, p. 8.

26 IEAA, submission no. 67, p. 1.

27 IDSA, *Essential facts about the computer and video games industry*, 2003, viewed on 7 January 2004 at <http://www.theesa.com/EF2003.pdf>. A 26 August 2003 press release by the Entertainment Software Association (the renamed IDSA) reported that a full 17% of game players are over age 50, up from 13% in 2000. Women age 18 and older now make up a larger percentage of the gaming population—26%—than boys ages 6 to 17 who represent 21% of gamers. Men age 18 and over represent the largest group of gamers (38%) with girls between the ages of 6 to 17 making up 12% of all gamers. The average age of game players is now 29 years old, viewed 15 January 2004 at <http://www.theesa.com/pressroom.html>.

there is room to increase use of computer games amongst the under-18 year olds, especially in the education sector, and amongst the over 40s.

Table 3.2 Age and sex of electronic game players in the US

	Under 18	18–35 yrs	36+ yrs	Sex [M/F]
Most frequent PC player	29.7%	28.7%	41.6%	58.1 / 41.9
Most frequent video [console] player	37.9%	39.5%	22.7%	71.5 / 28.5

Source Digital Software Association (IDSA), *Essential facts about the computer and video games industry, 2003*, downloaded: 7 January 2004 from <http://www.theesa.com/EF2003.pdf>.

3.14 The economic benefits of an Australian game industry go beyond the employment created directly within the industry, and domestic and foreign income. The Committee was told that the game industry is a significant employer of staff from related industries, such as film and animation:

We [Ratbag Services Pty Ltd] currently have 50 staff, and we are now hiring more people. ... [W]e have become dependent, to some extent, on skills in the film industry. ... we use screenwriters, editors and post-production houses, animators, voice actors; a whole range of creative people from film and TV to help us make our games. The games are focusing much more on story.²⁸

3.15 Apart from providing employment opportunities from other industries, the electronic game sector offers other economic benefits. IEAA stated:

The interactive entertainment industry in Australia:

- Will create a greater demand for broadband online access when online gaming is launched later this year;
- Stimulates uptake of new communication technology;
- Increases international recognition of the industry as being sophisticated, dynamic and at the forefront of technology;
- Increases local and international investment in the interactive games industry.²⁹

3.16 The benefits may accrue not only directly within the electronic game sector but more broadly within the community, largely as a result of improved infrastructure (for example, broadband availability), a more mature domestic investment market, and international recognition for the talents of Australian 'new economy' entrepreneurs leading to additional investment in a broader range of sectors.

28 Mr G. Siegele, Ratbag Services, *Transcript of Evidence*, 30 September 2003, p. 2.

29 IEAA, submission no. 67, p. 2.

- 3.17 The Australian game industry has a solid and developing export profile. It is not a commodity industry, but largely a service export industry.³⁰ According to industry participants, in 2002, Australian games developers exported about A\$100 million in software titles, generating some \$750 million in retail value in the destination markets.³¹ In 2002 Software Engineering Australia reported that the Victorian game industry earned about A\$30 million a year in exports.³²
- 3.18 Even with the existing modest size of the electronic games industries, each title developed and released appears to provide tangible economic and social benefits. For example, in 2002, the (Victorian) Minister for ICT, the Hon. Marsha Thomson MLA, was reported as stating that each new game developed in Victoria represented investment of up to \$3 million and could generate up to 30 additional jobs.³³

Social and cultural benefits

- 3.19 There has been debate about the social and cultural benefits of electronic games and the electronic games industry. The press has at times reported allegations that violent video games harm the players.³⁴ Specific crimes have been linked to the playing of particular games.³⁵
- 3.20 Other reports indicate violence on television is more likely to lead to aggressive behaviour than playing video games. One report suggested studies had shown games provide a cathartic experience, reducing levels of aggression as the game continued.³⁶ Some reports indicated that students who felt ostracised and alienated saw electronic games as a main source of positive social contact.³⁷ Researchers suggest that 'strong co-operative communities that have grown up' around online games such as 'Quake' and 'Doom'.³⁸

30 GDAA, submission no. 54, p. 8.

31 *ibid.*

32 Software Engineering Australia, 'Victorian computer game industry', *loc. cit.*

33 *ibid.*

34 C. Fitzsimmons, 'Violence in games "damages children"', *The Australian*, 23 September 2003.

35 S. Lowe, 'Killing is only half the game for playful clan', *Sydney Morning Herald*, 23 May 2003.

36 G. Maddox, 'Now for the good news on video games', *Sydney Morning Herald*, 23 September 2003.

37 S. Lowe, 'Killing is only half the game for playful clan', *Sydney Morning Herald*, 23 May 2003.

38 *ibid.*

3.21 Other studies suggest that playing action video games for as little as one hour per day for ten days can significantly improve visual ability as well as cognitive skills.³⁹

3.22 The IEAA considers the social benefits of electronic games include:

- Cognitive Stimulation; computer games can demand high levels of skill and concentration exploiting perceptual-motor abilities, reaction time, induction and prediction;
- Relaxation and enjoyment; these are generally recognised as legitimate goals in leisure time;
- Promoting the self esteem of the player; and affording players a sense of mastery; players demonstrate skill and win the acclaim of peers;
- Positive social messages;
- Promoting social interaction; and,
- Interactive entertainment contributes to Australian culture by portraying Australian themes, images and stories in internationally recognised interactive games such as AFL Live and TY the Tasmanian Tiger.⁴⁰

3.23 The social facet of electronic game use has been suggested by industry organisations abroad. The Entertainment Software Association (ESA) reported:

... sixty percent of parents say they play interactive games with their kids at least once a month. The vast majority of people who play games do so with friends and family. Almost sixty percent of frequent game players play with friends, thirty-three percent play with siblings, and about one-quarter play with their spouse and/or parents.⁴¹

3.24 The anti-social effects of electronic games may be over stated. In 1995 federal, state and territory ministers with responsibilities for censorship matters commissioned a study into the effects of computer games. The report of the four-year study stated:

Importantly, several well designed studies conducted by proponents of the theory that computer games would promote aggression in the young have found no such effects. In contrast,

39 J. Skatssoon, 'Video games "good for visual ability"', AAP, 29 May 2003. This report stated that the study was published in *Nature*; D. Kingsley, 'Action video games can boost cognitive skills', *ABC News in Science*, 29 May 2003.

40 IEAA, submission no. 67, p. 2.

41 'Top ten industry facts', report of a survey by ESA, viewed 9 January 2004 at <http://www.theesa.com/pressroom.html>.

other studies focused on cognitive and spatial benefits have yielded positive results.

This does not lead to the conclusion that computer games never have undesirable consequences or correlates, nor that they will be invariably beneficial. It does mean that the place of computer games in the lives of young Australians need not be approached on the premise that this form of entertainment is inherently problematic.⁴²

- 3.25 The cultural benefits are clear: games development provides Australian game developers with the opportunity to portray Australian culture to an Australian as well as other audiences.
- 3.26 Social benefits also appear to be generated. Games development and playing provide another medium for social interaction within Australia and between Australians and people all over the world. There may be dangers, as in any hobby, of devoting too much time. As with any social interaction, participation in electronic games may be abused or the vulnerable exploited by the predatory. However, until more compelling evidence emerges of harm beyond what occurs in other areas of recreation, it appears that there are real social and cultural benefits from the game industry.

International comparisons

- 3.27 The global 2002 electronic games market was estimated at \$40.8 billion, surpassing box office receipts of \$39.6 billion. From 2001 to 2002, according to PricewaterhouseCoopers, the global box office grew by 8.8 per cent, while electronic games sales grew by 12.5 per cent.⁴³
- 3.28 The United States is the largest potential market for electronic games followed by Japan and then the United Kingdom. In 2000, the US market size was 35.6 per cent of global sales, Japan had 19.2 per cent while the UK accounted for 8.7 per cent of the global market. Europe, (including the UK), amounted to about 35 per cent of global sales.⁴⁴

42 K. Durkin and K. Aisbett, *Computer Games and Australians today*, Sydney: Office of Film and Literature Classification, 1999, p. xi.

43 Exhibit 119: PricewaterhouseCoopers, *Australian Entertainment and Media Outlook 2003-07*, Sydney, PricewaterhouseCoopers, pp. 4, 33, 124.

44 Spectrum Strategy Consultants/Department of Trade and Industry, *From Exuberant Youth to sustainable maturity*, 2002, pp. 7-9, viewed 12 January 2004 at http://www.dti.gov.uk/industries/computer_games/downloads.html.

Table 3.3 Electronic games [all platforms]: market share by country of development, 2000

Market →	United States	United Kingdom	European Union	Global
Country of Development ↓				
United States	67% [approx]	26%	45% [approx]	44.1%
United Kingdom	10.5%	35%	28% [approx]	15.3%
Japan	22% [approx]	32%	12% [approx]	35.3%
Germany	n.a.	n.a.	6% [approx]	2.1%
France	n.a.	Less than 5%	5% [approx]	1.7%
Canada	n.a.	n.a.	3% [approx]	1.5%

Source Compiled from: Spectrum Strategy Consultants / Department of Trade and Industry, *From Exuberant Youth to sustainable maturity, 2002, Executive summary, pp.7-9*, downloaded 12 January 2004 from http://www.dti.gov.uk/industries/computer_games/downloads.html.

3.29 The electronic games market is divided into two major platforms: computer-based (or PC) and console-based (which includes handheld). Worldwide in 2000, the console game software market accounted for 68 per cent of electronic game sales. This varies regionally.

Table 3.4 Global PC and Console sales, by market, in 2000

Platform →	Console	PC
Market ↓		
United States	36	35
United Kingdom	7	10
Europe	20	37
Japan	27	3
Rest of the World	10	15

Source Compiled from: Spectrum Strategy Consultants / Department of Trade and Industry, *From Exuberant Youth to sustainable maturity, 2002, p. 11, main report*, downloaded 12 January 2004 from http://www.dti.gov.uk/industries/computer_games/downloads.html.

3.30 ESA reported the value of entertainment software sales in 2002 in the US was US\$6,900 million.⁴⁵

45 ESA, *Industry Sales and Economic Data*, viewed 13 January 2004 at <http://www.theesa.com/industrysales.html>. Sales data for 2002 for other markets was not available to the Committee when this report was finalised; however, in 2000, the retail market sizes for the major markets were: United States, £4.5 billion; Japan, £2.4 billion; the UK, £1.1 billion and, (taken as a whole) Europe, £4.1 billion (estimated): from Spectrum Strategy Consultants / Department of Trade and Industry, *From Exuberant Youth to sustainable maturity, 2002, Executive summary, p. 7*, viewed 12 January 2004 at http://www.dti.gov.uk/industries/computer_games/downloads.html.

- 3.31 In the European Union, about 11,000 people were involved in electronic game development in 2000, with Benelux accounting for 500; France, 2,620; Germany, 580; Italy, 200; Scandinavia, 900; Spain, 300, United Kingdom, 6,000.⁴⁶ Clear figures are not available for the US from sources available to the Committee, however, the US Interactive Digital Software Association reported that in 2000 some 29,500 people were employed in software publishing.⁴⁷

United Kingdom

- 3.32 The UK is the largest market for electronic games in Europe, the third largest market in the world, after the US and Japan, and the third most successful developer, in terms of global market share. Total UK leisure software sales in 2002 amounted to £1,081m.⁴⁸
- 3.33 UK developers maintain a significant presence in their own market. The UK games industry is a significant export earner, producing a positive balance of trade. Screen Digest is reported as estimating that UK developed games generated more than £1.1bn in retail sales outside the UK in 2000, delivering a positive trade balance of £186m. A UK Department of Trade and Industry commissioned report states that over the period 1997–1999 the electronic games sector provided a total positive trade contribution of more than three-quarters of a billion pounds (£757m), compared to film at £462m and television (a negative contribution of £944m). This was achieved without industry-specific incentives such as enjoyed by the UK's film industry.⁴⁹ Comparison between the UK and other nations in Europe indicates that the UK is a regional leader and centre for electronic game development and use.

46 Spectrum Strategy Consultants / Department of Trade and Industry, *From Exuberant Youth to sustainable maturity, 2002*, Executive summary, op. cit., p. 11.

47 IDSA, *Economic impacts of the demand for playing interactive entertainment software*, 2001, viewed at <http://www.theesa.com/releases/EIS2001.pdf> on 12 January 2004.

48 Entertainment Leisure Software Publishers Association, *Computer and Video games: A British phenomenon around the world*, August 2003, viewed 13 January 2004 at <http://www.elspa.com/about/pr/elspawhitepaper1.pdf>.

49 Spectrum Strategy Consultants/Department of Trade and Industry, *From Exuberant Youth to sustainable maturity, 2002*, Executive summary, op. cit., p. 9.

Table 3.5 European market size comparison 2002

Country	Value	Value (\$AUD) ⁵⁰
United Kingdom	€ 1,719m	\$2,817m
Germany	€ 1,196m	\$1,961m
France	€ 990m	\$1,623
Italy	€ 438m	\$718m
Spain/Portugal	€ 415m	\$680m

Source Entertainment Leisure Software Publishers Association, *Computer and Video games: A British phenomenon around the world*, August 2003, downloaded 13 January 2004 from <http://www.elspa.com/about/pr/elspawhitepaper1.pdf>.

3.34 According to the study published by Spectrum Strategy Consultants and the UK Department of Trade and Industry, the UK had some 20,000 people employed across all segments of the electronic games industry (development, publishing, distribution, retail and so on) in 2002.⁵¹ Some 6,000 people are engaged in electronic games development. The electronic game development enterprises in the UK were similar in size to those in Australia. Independent studios had an average of 22 employees, and only 11 studios had more than one hundred employees. In addition, there were 'in-house' studios of UK or foreign but UK-based publishers.⁵²

United States of America

3.35 The ESA, an industry body in the US, reported in 2003 that sales of electronic games in the US grew 8% over 2001 figures, generating in 2002, \$6.9 billion in sales. US sales of console games totalled \$5.5 billion while computer games accounted for \$1.4 billion in sales.⁵³

3.36 The predecessor of the ESA, the IDSA, issued an analysis of the US game industry in 2001, *Economic impacts of the demand for playing interactive entertainment software*. The study showed the effect of the electronic game industry on the US economy:

In the information sector alone, which is where game software is produced, the economic impacts, including direct effects of demand for game software and the indirect effects of all industry spending initiated by the game software publishing industry, were:

50 On 13 January 2004, a rate of €1 for A\$1.640.

51 Spectrum Strategy Consultants/Department of Trade and Industry, *From Exuberant Youth to sustainable maturity*, 2002, op. cit., pp. 10 & 11.

52 *ibid.*, p. 11.

53 ESA, *Industry Sales and Economic Data*, loc. cit.

- 124,500 jobs;
 - \$4.9 billion in wages;
 - \$1.2 billion in taxes; and
 - A \$9.3 billion market for game software publishing, wholesaling, and retailing.⁵⁴
- 3.37 According to the IDSA, the success and growth of the game software publishing industry is due partly to the research and development (R&D) the industry undertakes. Referring to data from the National Science Foundation, the IDSA reported the software publishing industry devoted 14 per cent of its receipts to R&D; in contrast, other entertainment industries devote 9 to 12 per cent of sales to R&D. In 2000, game software publishers spent, according to the IDSA, \$1.1 billion on R&D.⁵⁵

Quality of the information on Australia's film, animation, special effects and electronic games industries

Games

- 3.38 The Committee acknowledges the work of the Australian Film Commission (AFC) in compiling *Get the Picture*.⁵⁶ This work is invaluable, however, it has gaps. For example, in respect of electronic games, the data does not indicate the number of developers or their location, projects being undertaken or number of employees. Some of these figures change with the volume of work; however, a 'snapshot' would assist in understanding the game industry.
- 3.39 Similarly, there does not appear to have been a comparative study of Australia's capacities in electronic games and potential markets. Such market intelligence is crucial in mapping out an industry plan.
- 3.40 Significantly, the report for the UK Department of Trade and Industry by Spectrum Strategy Consultants, *From Exuberant Youth to sustainable maturity*, identified improvements in industry data availability and data flow along the value chain as essential to foster UK game development:

54 IDSA, *Economic impacts of the demand for playing interactive entertainment software*, 2001, op. cit., p. 3.

55 *ibid.*, p. 9.

56 Available online at <http://www.afc.gov.au/gtp/index.html>.

Access to market data is essential for UK games companies to understand markets, trends, threats and opportunities. Market data needs to flow in both directions from retailers back to games companies down the value chain all the way to developers, and vice versa. Establishing a data form that does not reveal competitive or commercially sensitive data [which] provides valuable industry benchmark data [that] is non-trivial, has been achieved with good success in other creative industries and is a sign of industry maturity.⁵⁷

- 3.41 Data collection and access is considered essential for the development of the world's third largest electronic game industry. It is no less important for Australia's electronic game industry as well as other digital content industries. This point has been made in a report commissioned by the Department of Communications, Information Technology and the Arts (DOCITA) in which lagging statistical indicators and significant information asymmetries are identified as impediments to growth:

Lagging statistical indicators mask the economic potential and implications of emerging industries and trends, affecting both inter-firm negotiations and government policy setting. The lack of appropriate and timely information can affect a firm's negotiation power and business planning and means emerging firms have a limited ability to track potential technology or market shocks.⁵⁸

- 3.42 Another report commissioned by DOCITA examined the collection and availability of statistical information on Australia's digital content industries. The report included this view by the Australian Interactive Media Industry Association as indicative of industry views:

In spite of the Information Industries Action Agenda identifying the content industry as one segment providing "substantial global market opportunities" there is no accurate quantitative or

57 Spectrum Strategy Consultants/Department of Trade and Industry, *From Exuberant Youth to sustainable maturity*, 2002, Executive summary, op. cit., p. 22.

58 DOCITA, *The creative industries cluster study: outline of findings from stage 1 and stage 2 creative industries cluster study reports*, viewed on 14 January 2004 at <http://www.cultureandrecreation.gov.au/cics/summary1.doc>. See also: Cutler and company, *Producing Digital Content: a consultancy to examine and advance the understanding of the production of digital content* [abridged], September 2002, p. 68, viewed on 14 January 2004 at http://www.govonline.gov.au/projects/environment/clusterstudy/Cluster_Study_Stage_2_Report.pdf.

qualitative data about the Australian multimedia/content industry.⁵⁹

3.43 This report concluded:

... there are many aspects of the measurement of creative digital content that require additional work, involving definitions and classifications required for national and international comparability, possible adaptation of existing ABS surveys and the development of new surveys in some areas.⁶⁰

3.44 The report recommended, amongst other things, that DOCITA consult the Australian Bureau of Statistics (ABS) 'as a matter of urgency', about the implementation of a statistical collection strategy and that the Department should continue to investigate other sources of data that may be used to supplement ABS data.⁶¹ The ABS publishes statistics every one year in three for the general film and video production and distribution sectors. The statistics are usually published 12 months after the conclusion of the year in question.

3.45 Yet another report commissioned by DOCITA and published in December 2003 recommended a dedicated market and industry intelligence service be established:

The issue of measurability, performance statistics and leading indicators for the Creative Digital Industry is absolutely critical. Without accurate, timely data it is impossible to be sensitive in tracking the success or failure of Australia's exports in digital content.⁶²

Film

3.46 Issues of data availability and access are no less important in regard to the film industry. Again, the Committee acknowledges *Get the Picture*. While this work is invaluable, it contains serious gaps in respect of the film

59 Pattinson Consulting, *The measurement of creative digital content: A study to assess user requirements for creative digital content statistics and a possible collection strategy to address them*, a report for DOCITA, June 2003, p. 13.

60 *ibid.*, p. 36.

61 *ibid.*, p. 4.

62 P. Higgs & T. Kennedy, *From Cottages to Corporations: Building global industry from Australian creativity*, (report on access to overseas markets for Australia's creative digital industry, 12 December 2003), Canberra, Commonwealth of Australia, p. 98. This is a report in the creative industries cluster study, stage 3, viewed 14 January 2004 at http://www.cultureandrecreation.gov.au/cics/Access2Markets_FP.pdf.

industry: the animation industry is treated superficially and the special effects industry is not mentioned. This is surprising, given that some special effects companies source work from overseas. Film budgets are not disclosed in *Get the Picture*, making it difficult to track success and measure the soundness of key players' judgement.

- 3.47 Some submitters indicated that more information was required about Australia's film, animation, special effects and electronic games industries. For example, BEEPS stated:

It would be useful to audit what Australia's capacities are in terms of realistic outputs. Once this is known then a collaborative strategy can be developed in marketing the capabilities and encourage companies to work together on projects whilst also avoiding the "boom bust" cycle of gearing up with equipment and personnel.

As a result of collaborative approach across the industry sectors, a better understanding of infrastructure demand, broadband access, and connectivity issues will also be addressed thus strengthening the industries position with marketing itself, meeting client needs, cost efficiencies, and improving strategic planning and forecasting future growth and opportunities.⁶³

- 3.48 In the same vein, Film Australia submitted:

The Australian documentary sector would be greatly supported by the collection and analysis of reliable data on the amount of documentary broadcast on free-to-air and subscription television services and the program spend on Australian documentary programming.⁶⁴

- 3.49 Other submitters calling for better data collection included the Queensland Game Developers Cluster,⁶⁵ Film Victoria,⁶⁶ the GDAA, which specifically called for creation of a game industry database and collection of market intelligence data,⁶⁷ Councillor Jan Grew of the Gold Coast City Council,⁶⁸ the Australian Children's Television Foundation, which supported research on market gaps, especially given the development of

63 BEEPS, submission no. 34, p. 14

64 Film Australia, submission no. 82, p. 13.

65 Queensland Game Developers Cluster, submission no. 78, p. 7.

66 Film Victoria, submission no. 85, p. 19.

67 GDAA, submission no. 54, p. 19

68 Gold Coast City Council, submission no. 53, p. 4.

new media technologies,⁶⁹ and the Australian Film Television and Radio School, which submitted data should be collected on the state of skills acquisition and deficiencies in Australia.⁷⁰

- 3.50 The Committee is surprised that comprehensive data collection is not undertaken. This problem was identified by its predecessor, the House of Representatives Standing Committee on Environment, Heritage and the Arts, in the 1992 report, *Moving Pictures Inquiry*. That Committee reported it had been told of the need for 'more information about the industry to be made available, or for more research and analysis to be undertaken' and it recommended:

The Australian Bureau of Statistics give high priority to the collection and analysis of data relating to film production, distribution and exhibition, as specified by the Statistical Advisory Group of the Cultural Ministers' Council.⁷¹

- 3.51 It is unfortunate that the issue of data collection has not been addressed thoroughly, nor a plan devised to extend data collection into the digital content industries.

- 3.52 Another area where there appears to be little public information is in terms of production budgets and other financial information. Film Australia drew to the Committee's attention the inconsistency of information supplied to the commercial television industry regulator, the Australian Broadcasting Authority, when it conducted a review of the Australian Content Standard in 2001–02.⁷²

- 3.53 The lack of financial information on the Australian film industry has been noted before. In her study of Australian cinema successes in the 1990s, Mary Anne Reid wrote:

There is a long tradition of non-disclosure of financial information in the Australian film industry. International sales agents, for example, say they cannot disclose the prices paid by overseas distributors as it may jeopardise future sales. Producers are usually reluctant to reveal the P&A budgets of their films unless the distributors are willing to do so. Film-funding agencies say producers control the disclosure of financial details and producers

69 Australian Children's Television Foundation, submission no. 29, p. 12.

70 Australian Film Television and Radio School, submission no. 18, p. 7.

71 House of Representatives Standing Committee on Environment, Heritage and the Arts, *Moving Pictures Inquiry*, Parliament of the Commonwealth, 1992, p. 100.

72 Film Australia, submission no. 82, p. 14.

put the responsibility back on agencies. Exhibitors and distributors claim their results are confidential.

Whether or not it is in the best interests of the industry to maintain the existing level of non-disclosure is an important question. My impression ... is that the majority of those working in the industry feel it would be beneficial if more information was available... My own feeling is that without access to adequate information, the industry cannot consider itself sophisticated in the business of film.⁷³

- 3.54 The Committee's view is more pragmatic. When public money is involved, information on how films perform and what they cost should also be made public. If there is legislation that stipulates certain levels of content on television, then the public should know whether broadcasters, of whatever type, are complying with it. Recommendation 4 at the end of the chapter addresses this issue.
- 3.55 In addition, the broadcast media are important to the community in terms of its cultural development, its self-image and cohesion. The community is entitled to know whether broadcasters providing content to the community either free-to-air or on a subscription basis, reflect and transmit community values and discharge their cultural and societal responsibilities. Information about Australian content and production is required.
- 3.56 It may be argued that commercial-in-confidence considerations are sometimes so important that information ought not to be revealed publicly. That may be true in some cases. However, as a matter of equity to broadcasters who do have to reveal details of their financial and broadcast support for Australian programs, subscription documentary television channels should reveal clearly their support for Australian content.
- 3.57 In the Committee's view, disclosure of support for Australian content is about accountability. The Committee notes, in this regard, a number of newspaper reports of comments made by the Chief Executive of the Film Finance Corporation, Mr Brian Rosen. The Chief Executive has been reported as saying that the current film support arrangements suffer a lack of accountability through the production chain—financing, producing and distributing:

There's no accountability. There has to be accountability, and the accountability has to start with the FFC.

It has to start with the state agencies and the AFC that are developing projects.⁷⁴

The article went on to state:

What he [Mr Rosen] means is that in the shuttle diplomacy between producers and distributors, the FFC, the AFC and the state bodies that any film project requires... "there is nobody, when you look at it, that you can say is really accountable—because no one is really accountable for the success of this film".⁷⁵

Conclusions

- 3.58 Australia has talented and creative individuals driving the film, animation, special effects and electronic games industries. Australian artists and creative professionals perform well, given the size of the population and the resources available. The creative industries have, potentially, many opportunities and, if nurtured properly, will increase their contribution to the nation's cultural and economic life.
- 3.59 Australia's creative industries will be able to do this only if supported by appropriate public policy. However, in order to develop focused public policy in their area, accurate and timely information is required. Some of the information used in this overview is several years old. In some cases, information is entirely lacking. These deficiencies should be remedied.

Recommendation 4

- 3.60 **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.**

74 N. Chenoweth, 'Cut! The Australian film industry loses the plot', *Australian Financial Review*, 13 September 2003.

75 *ibid.*

Recommendation 5

3.61 **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

3.62 **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

3.63 **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*.**

Making the most of opportunities

Introduction and overview

- 4.1 The evidence provided a consistent picture: Australia’s film, animation, special effects and electronic games industries face great opportunities. In evidence, the Australian Film Commission (AFC) stated:

We are scratching the surface in terms of the creative potential within Australia to generate and produce high-quality screen content, whether it be film and television or in some of the new and emerging areas of production and screen delivery and markets internationally.¹

- 4.2 This chapter addresses the following terms of reference:

- future opportunities for further growth of these industries, including through the application of advanced digital technologies, online interactivity and broadband—term of reference (c);
- the current and likely future infrastructure needs of these industries, including access to bandwidth—term of reference (d);² and
- the skills required to facilitate future growth in these industries and the capacity of the education and training system to meet these demands—term of reference (e).³

1 Mr K. Dalton, AFC, *Transcript of Evidence*, 4 September 2003, p. 62.

2 Beginning at paragraph 4.92.

3 Beginning at paragraph 4.151.

4.3 Submissions suggested that government has a lead role. For example:

The Australian games industry is at a point where it can take off to new heights and become a major international game development hub or slowly stagnate into a steady state and eventually die, because other nations and their governments have helped their citizens take the lead.⁴

4.4 The need for policy direction was raised in many submissions, including from agencies that advance Australia's creative industries,⁵ industry associations,⁶ educational institutions,⁷ and private enterprise.⁸ In recognition of this need for policy direction, recommendation 1 of this report suggests that the Government make a policy statement for all the industries examined in this inquiry. An example of the sort of measures that could be included in such a policy statement is the Committee's recommendation later in the report that Division 10BA of the *Income Tax Assessment Act 1936* be extended to the games industry.

4.5 This chapter identifies the opportunities that lie ahead and outlines the changes to infrastructure and skills development systems that are necessary for Australia to be in a position, structurally, to grasp the emerging global opportunities. Public policy issues are discussed in Chapter 6.

Future opportunities

4.6 Peter Higgs and Thomas Kennedy estimated the export potential:

Australia has an opportunity to transform its many creative cottage producers into world-class producers and exporters of creative content, applications and services. A vibrant Creative Digital Industry will shift Australia from being a net importer of

4 Micro Forte, submission no. 40, p. 3.

5 For example, AFC, submission no. 58, pp. 21-22, Film Finance Corporation Australia, submission no. 70, pp. 18-19, Film Australia, submission no. 82, p. 4, Australian Children's Television Foundation, submission no. 29, p. i.

6 For example, the Game Developers' Association of Australia, submission no. 54, p. 3; Screen Producers Association of Australia, submission no. 33, p. 7, SPAA/ASDC Documentary Council, submission no. 45, p. 3.

7 For example, Academy of Interactive Entertainment, submission no. 43, pp. 4-5 and Film and Television Institute of Western Australia, submission no. 2, p. 15.

8 For example, Allanbank International, submission no. 57, p. 19; Animal Logic, submission no. 102, p. 3; BigKidz Entertainment, submission no. 13, p. 10; Bungarra Software, submission no. 41, pp. 1-2; Fox Studios, submission no. 75, pp. 4-5.

over \$1 billion of content in 2000 to being a potential net exporter of \$1.5 billion by 2010.⁹

- 4.7 Opportunities exist to increase Australian earnings in film and television drama, documentary production,¹⁰ digital production,¹¹ animation¹² and games.¹³ Higgs and Kennedy assessed Australia's resources and prospects:

Our creative and technical skills and resourcefulness are already winning us business share of the "runaway" or "footloose" production in film, animation, games and post-production from more traditional markets. Our depth of production resources including locations, our creative talents, our tolerant, multicultural society and the convenience of being in the same time-zone as Asia, are all attributes that could enable us to address substantial global, as well as niche, markets.¹⁴

Global markets

- 4.8 Global demand for the creative industries at the heart of this inquiry—film, animation, special effects and electronic games—is growing:

World wide, the creative economy was estimated to be worth about \$US2.24 billion in 1999, representing 7 per cent of the global economy and growing at 5 per cent per year.¹⁵

- 4.9 In 2003, PricewaterhouseCoopers found that between 2003 and 2007, the 'media market' which included the industries the subject of this inquiry, was predicted to have a global compound annual growth rate (CAGR) of 4.8 per cent. The industries being examined in this inquiry (except for free-to-air television) were predicted to have even higher growth rates.¹⁶ The highest growth estimate was for electronic games.

9 P. Higgs & T. Kennedy, *From Cottages to Corporations: Building global industry from Australian creativity*, a report for the Department of Communications, Information Technology and the Arts, December 2003, p. 13.

10 Film Finance Corporation Australia, submission no. 70, p. 11.

11 BEEPS, submission no. 34, p. 18 and Animal Logic, submission no. 83, p. 2.

12 Yoram Gross-EM.TV, submission no. 63, p. 9 and Mr T. Brooke-Hunt, Pacific Vision, *Transcript of Evidence*, 5 September 2003, p. 31.

13 Game Developers' Association of Australia, submission no. 54, p. 10.

14 P. Higgs & T. Kennedy, op. cit., p. 19.

15 AFC, submission no. 58, pp. 5-6, citing J. Howkins, *The Creative Economy: How people make money from ideas*, London: Penguin, 2001, p. 86.

16 Exhibit 19, PricewaterhouseCoopers, *Australian entertainment and media outlook 2003-2007*, p. 4.

Table 4.1 Global growth, creative industries, to 2007

	Filmed Entertainment	Free-to-air television	Subscription television	Internet	Interactive games
CAGR (%) 2003 – 2007	6.4	3.7	6.6	10.1	11.2
\$A m, in 2007	170,591	220,137	444,942	179,712	69,038

Source Exhibit no. 119: PricewaterhouseCoopers, *Australian entertainment and media outlook, 2003–2007*, PricewaterhouseCoopers, p. 4.

Table 4.2 Global growth, by region, creative industries, to 2007

	United States	Europe, Middle East, Africa	Asia/Pacific	Latin America	Canada
CAGR (%) 2003 – 2007	5.0	4.3	4.7	4.4	7.3
\$A m, in 2007	1,178,871	814,766	508,545	92,227	59,828

Source Exhibit no. 119: PricewaterhouseCoopers, *Australian entertainment and media outlook, 2003–2007*, PricewaterhouseCoopers, p. 5.

Australia's global position

4.10 By themselves, high quality producers, facilities, and professionals do not lead to a self-sustaining industry, nor generate investment or global sales. Nor do expanding global markets by themselves provide opportunities for Australians. Australia must be in a position to participate in the global market: it must have the talent and infrastructure and understand the global market to tailor its capacities and public policy to fit.

4.11 The developing global creative market is digitally based. This means that content—films, games, television programs—will be created digitally and delivered to viewers and consumers digitally.¹⁷ Unless Australia implements a 'creative digital future' it may be marginalised:

The significant threat faced by a small player in these markets is marginalisation in the global value chain. The key opportunity is simply the reverse: by developing the new capabilities required by the global digital value chain, a strong globally-competitive position can be established.

The implications for Australia are two-fold:

- policies for digital content and applications industries must address the issue of our positioning in global marketplaces,

17 AFC, submission no. 58, p. 5; and Australian Film Television and Radio School, submission 18, pp. 2 & 24-26.

including in the downstream distribution channels where large multinational firms dominate;

- policies must have regard to the capabilities of our industries to deliver commercial outcomes in the new global digital value chain.¹⁸

4.12 Embracing the creative industries and the opportunities they offer requires Australia to recognise a change in the world:

Certainly the entertainment industries are becoming key economic components. In America they are bigger industries than the defence industry. In Japan and Britain, people spend more on entertainment than they do on clothing and even on their health services. So these information and entertainment industries are becoming very big enterprises. If we are unable to play in that market and have workers who are prominent in that market and making Australian material, then I think we have a huge problem into the future.¹⁹

4.13 Australia faces several significant considerations that will shape policy responses. It is a small producer in a very large market; it has neither the domestic market, the dollar value of production nor the trading alliances needed to guarantee a strong position internationally; it is not a member of a trading block, such as the European Union;²⁰ nor does it have a privileged relationship with the dominant cultural force in global cultural industries, the United States, that would ensure Australian cultural products have better access. Rather, recent changes in the relationship have been seen more in terms of ensuring that Australian screens continue to show Australian productions.

4.14 The Committee is conscious of the potential impact of the Free Trade Agreement with the US. The Minister for Communications, Information Technology and the Arts has stated:

Australian stories will continue to be seen and heard on Australian screens now and in the future, no matter what the platform.

18 Cutler and Company, *Producing Digital Content*, abridged, Stage 2 of the Creative Industries Cluster Study for the Department of Communications, Information Technology and the Arts, September 2002, p. 4.

19 Mr M. Long, Australian Film Television and Radio School, *Transcript of Evidence*, 4 September 2003, p. 29.

20 AFC and Film Finance Corporation Australia, *Report on the film and television production industry*, a report prepared for the Minister for the Arts and the Centenary of Federation, the Hon. Peter McGauran MP, 5 November 1999, p. 19.

The FTA completely preserves all of our existing local content regulation, including the 55 per cent transmission quota for Australian content on free-to-air-television.

Importantly, this agreement ensures that the Government retains the power to regulate for Australian content in both existing and new forms of media, whether analog or digital.²¹

- 4.15 The contrast between the Australian government's assertion (that the right to ensure local content on Australian media and Australian voices and stories on audiovisual and broadcasting services has been protected) and the US government's satisfaction with improved access was referred to by the Chief Executive of the AFC, Mr Kim Dalton. He said the US government described the agreement as containing:

important and unprecedented provisions to improve market access for U.S. films and television programs over a variety of media including cable, satellite, and the Internet.

Mr Dalton went on to say:

The concluded agreement does do both and represents compromises by both sides. Australia has maintained its ability to ensure local content on Australian television screens into the future while at the same time giving unprecedented commitments over its future ability to regulate in this area...²²

- 4.16 The Committee notes the inquiry into the Free Trade Agreement that is being conducted by the Joint Standing Committee on Treaties. That Committee aims to report to the Parliament by 23 June 2004.²³
- 4.17 Another—negative—factor in terms of investment in Australian production may be the value of the Australian dollar. Over 2003 the US

21 Minister for Communications, Information Technology and the Arts, 'News Release – Protecting Australian Voices Under the FTA,' 10 February 2004, viewed 3 May 2004 at http://www.dcita.gov.au/Article/0,,0_1-2_15-3_498-4_117710,00.html. See also background information available from the website of the Department of Foreign Affairs and Trade: http://www.dfat.gov.au/trade/negotiations/us_fta/backgroundunder/audiovisual.html.

22 Mr K. Dalton, 'Cultural Impacts of the Aust/US Free Trade Agreement', Address to the Australian APEC Study Centre Conference on the US Free Trade Agreement – The New Opportunities and Impacts, 1 March 2004, p. 3.

23 See <http://www.aph.gov.au/house/committee/jsct/usafta/index.htm> for information on the Treaties Committee's inquiry. Also, the Senate Select Committee on the Free Trade Agreement between Australia and the United States of America is to table an interim report on 21 June and a final report by 12 August 2004.

dollar fell by 29 per cent against the Australian dollar.²⁴ By way of random example, on 27 April 1999 the Australian dollar was worth 0.6518USD; on 27 April 2001 it was 0.5068USD; and on 27 April 2004, 0.7339 USD.²⁵

Gaining access to bigger markets

- 4.18 Some major markets are said to be closed effectively to foreign film and television products:

They [the US market] take something like 1.2 per cent of new programming from overseas sources whereas we take something like 60 or 70 per cent.²⁶

- 4.19 The Managing Director of Yoram Gross-EM.TV testified:

The United States and Japan have a very closed market, not through legislation, only through cultural attitude. Japan is purchasing only four per cent of foreign material for Japanese television.²⁷

- 4.20 In this respect, Australia is no different from any other country:

We are not the only country that cannot sell into America. ... They do not love anyone's television programs. Very rarely do you get any English programs on their shows. Generally, they do exactly the format rights and they make it themselves. ... They bought up *Cracker*, which was one of the best television projects made in the last 10 years, and made it into a show called *Fitz*. That is what they do.²⁸

- 4.21 The UK market is also regarded as closed:

... there is no question that the US and Japan are the two toughest markets in the world. The UK probably comes in at No. 3. Again, the UK is dominated by the BBC and the two independents. They

24 Mr Ian Macfarlane, evidence to House of Representatives Standing Committee on Economics, Finance and Public Administration, review of Reserve Bank of Australia *Annual Report 2002-03*, *Transcript of Evidence*, 8 December 2003, p. 8.

25 Reserve Bank of Australia, 'Statistics, Exchange rates since 1983', viewed 28 April 2004 at <http://www.rba.gov.au/Statistics/Historical/1999to2004.xls>.

26 Mr R. Harris, Australian Screen Directors Association, *Transcript of Evidence*, 5 September 2003, p. 40.

27 Mrs S. Gross, Yoram Gross-EM.TV, *Transcript of Evidence*, 5 September 2003, p. 2.

28 Mr R. Harris, Australian Screen Directors Association, *Transcript of Evidence*, 5 September 2003, p. 47.

believe they make the best TV in the world, so they are not that interested in other productions.²⁹

Distance

4.22 Australia is a long way from the key centres in the international film world and this can be an obstacle:

American and Europeans—our greatest potential partners—see the distance as a great barrier and traditionally see Australasia’s use only as a source of cheap labour.³⁰

4.23 Distance may now be more a psychological and cultural barrier, but it is, a barrier that requires incentives to overcome:

It just really comes down to overcoming sometimes the tyranny of distance, for which we are also developing specialised technology in the communication area. ... To motivate an American studio to take work offshore and to lose that comfort factor of being able to control it under their nose, there has to be a financial advantage. Ultimately, it comes down to dollars.³¹

4.24 The Film Industry Broadband Resources Enterprise Pty Ltd (FIBRE), said:

There is certainly a sense of security as well as control that the producer or the director will have in being just across the lot from where the post-production and the special effects are being worked on. They do not have that if they are on the other side of the world. While they are prepared to come and shoot for three months or four months—or 10 months in the case of *Peter Pan*—they are not prepared to spend another year away from home; away from where they live with their family. So post-production is at a disadvantage.³²

Local market size

4.25 The local market cannot support a great amount of local production.

If a series cost \$10 million in Australia to produce, it will be produced for \$15 to \$20 million in the United States or about \$15 million to \$14 million in Europe. We are able to produce it for less

29 Mr G. Watson, Yoram Gross-EM.TV, *Transcript of Evidence*, 5 September 2003, p. 6.

30 Yoram Gross-EM.TV, submission no. 63, p. 16.

31 Mr Z. Nalbandian, Animal Logic, *Transcript of Evidence*, 4 September 2003, p. 6.

32 Mr D. Case, FIBRE, *Transcript of Evidence*, 4 September 2003, pp. 15–16. See also Mr G. Brennan, NSW Film and Television Office, *Transcript of Evidence*, 4 September 2003, p. 33.

than \$10 million. So the evidence in that sense is that we are highly competitive. So why can't we continue to be successful without the support of government? The reason is that, when an American producer produces in the United States, he can [recover] most of his costs from the United States. If a French company produces in France, they can [recover] most of the costs in their country. It is the same with Germany and, of course, Japan.

In Australia, with 20 million people, we cover only 15 to 20 per cent of the cost of a production in Australia. We need to cover the rest from the rest of the world.³³

- 4.26 The small domestic market's inability to sustain production of local content also poses problems for documentary makers. The Film Finance Corporation Australia (FFC) indicated:

Acquisition prices [for documentaries] are low—usually under \$3000 per hour, and rarely above \$6000 per hour, whereas the production budget of a one-hour documentary usually ranges from \$250,000 to \$450,000.³⁴

- 4.27 According to the FFC, the inability of the local market to provide a higher subvention to documentary makers results in Australia not being

... well placed to take advantage of the increased international demand for "high end" documentary series (eg *Walking With Dinosaurs*, *The Blue Planet*, *Elizabeth*), which are not being commissioned by Australia's broadcasters because they are considered too expensive. The result is that our local broadcasters are screening more foreign documentaries in their prime-time series slots.³⁵

- 4.28 Film Australia found Australia's capacity to be a player in the 'blue-chip' international documentary market was diminishing because the production values required cannot be sustained on the budgets available in Australia. The market was:

33 Mrs S. Gross, Yoram Gross-EM.TV, *Transcript of Evidence*, 4 September 2003, pp. 1-2. This point was made by other witnesses, for example, Mr G. Brown, Screen Producers Association of Australia, *Transcript of Evidence*, 5 September 2003, pp. 37 & 46.

34 FFC, submission no. 70, p. 20. This point was also made by Ms S. Connolly, Film Australia: 'Pay TV channels in Australia tend to buy documentaries after they are produced, which is not helpful in terms of financing production. They buy them for somewhere between 0.4 and 0.6 per cent of the production cost. So a program that can cost somewhere between \$350,000 and \$500,000 to produce an hour's worth of documentary might sell to a pay TV station for anywhere between \$1,200 and \$2,000', *Transcript of Evidence*, 26 November 2003, p. 2.

35 FFC, submission no. 70, p. 11.

... becoming increasingly competitive and requires very high production values to achieve sales in that area. Those production values, to be frank, are less and less achievable on the kinds of budgets available to Australian producers.³⁶

4.29 The game industry faces the same problem. Mr Adam Lancman testified that overseas sales and investment are crucial because the Australian market is small:

... look at the revenue of our members, probably 98 per cent of revenue is export. We don't make games for the Australian market. If you are spending \$5 million on making a game, you are never going to recoup that in sales in Australia. It is just too small.³⁷

4.30 This can generate another problem: because foreign produced programs have already recovered most of their production cost from their respective domestic markets, they can be sold in Australia much more cheaply than a comparable program could be produced here:

... the Americans go out to the rest of the world market, as we do, having already covered maybe 90 per cent of their production costs. So they are only selling to cover another 10 per cent. We go to the rest of the world and we are trying to cover 85 per cent. So they can undercut us extremely easily, with much more ease, even though their production costs are higher. ... It just comes down to that issue of 20 million people versus 250 million people.³⁸

4.31 This problem has been known about for some time, yet it seems that public policy has not evolved to address it:

In the larger markets of Europe and North America, producers generally recover the majority of their production costs in the domestic market and are therefore able to sell programs to secondary markets at a much reduced price.

By contrast, Australian producers recover a relatively small percentage of their production costs locally (even though Australian budgets are relatively low and the industry is regarded internationally as being extremely efficient).

36 Ms S. Connolly, Film Australia, *Transcript of Evidence*, 26 November 2003, pp. 5–6.

37 Mr A. Lancman, Game Developers' Association of Australia, *Transcript of Evidence*, 20 August 2003, p. 8.

38 Mr G. Watson, Yoram Gross-EM.TV, *Transcript of Evidence*, 5 September 2003, p. 2.

In the US, notwithstanding increased reliance on overseas revenue in recent years, domestic licence fees contribute about 70 per cent of the production budget (due to the size of the domestic market). Similarly, in the UK, 70–80 per cent of production budgets can be sourced from broadcasters.³⁹

- 4.32 The Committee notes Australia is currently finalising a Free Trade Agreement (FTA) with the United States of America. The terms of the FTA have the potential to materially impact on the dynamics of Australia's domestic industries. In this vein, the Committee acknowledges there are currently two inquiries into the implications of the FTA for Australia.⁴⁰ The Committee defers to analysis conducted within the scope of inquiry of these committees on the anticipated impact of the FTA upon Australia's domestic market for film, television, and computer games.

Obstacles

- 4.33 The practice by international competitors of 'bundling' film and television products—selling them via 'output deals'—is another difficulty:

Say you wanted to buy *Friends* to air in Germany; you would have to buy a package of material. ... In recent years they said, "Okay, you not only have to buy the package but you've got to show it all," so the slots for foreign programming were taken up with US material. It has got much harder to sell Australian material into some of those European markets where we used to do very well.⁴¹

- 4.34 These arrangements are apparently also used when selling films.⁴²

- 4.35 Some producers give programs away to gain market access for other products. This deprives other program makers of market opportunities:

The BBC have unlimited funds to produce quality animation. They cover the cost from their own broadcasters and the taxpayer for full production. Then they go to Germany, the biggest market in Europe, and give the product free of charge for the purpose of earning later merchandising and licensing. We then come with our

39 AFC and FFC, *Report on the film and television production industry*, a report prepared for the Minister for the Arts and the Centenary of Federation, the Hon. Peter McGauran MP, 5 November 1999, pp. 41–42.

40 The inquiries are being conducted by the Parliament's Joint Standing Committee on Treaties and the Senate Select Committee on the Free Trade Agreement between Australia and the United States of America. The expected reporting dates are 23 June 2004 and 12 August 2004 respectively. The Senate Committee also plans to table an interim report on 21 June 2004.

41 Ms J. Smith, NSW Film and Television Office, *Transcript of Evidence*, 4 September 2003, p. 40.

42 Mr K. Dalton, AFC, *Transcript of Evidence*, 4 September 2003, p. 60.

Blinky Bill and we ask a fee and we have to compete with product from the BBC.⁴³

- 4.36 Australian game manufacturers face barriers as well, according to some witnesses. There has been a shift, the Committee was told, in the approach of game publishing companies, that threatens the development of Australian content. Publishers are focusing on fewer titles and directing development funds to US-based companies:

We are becoming like Hollywood: the blockbuster titles are grossing half a billion dollars and the niche titles are now not really competitive. Publishers now are focusing on fewer titles and putting a lot more money into those titles. The threat that poses for the Australian industry is that those publishers are really focusing on American developers. Nearly all of the investment in video games comes out of America now.⁴⁴

- 4.37 Some of these practices, such as the trend to fewer, but larger titles, appear to be driven by consumer demand. On the other hand, 'bundling' and 'output deals' could be construed as a misuse of market power. The Committee accepts that firms need to compete in the international market place, but moves could be made to ensure this conduct complies with traditionally accepted competitive principles.

Recommendation 8

- 4.38 **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.**

Advantages

- 4.39 The barriers to participation in the world creative industries market should not be overstated. Australia has some competitive advantages: apart from the talent and infrastructure and long standing bi-partisan support at all levels of government, it is in a position to exploit the positive aspects of its location and cultural diversity.⁴⁵

43 Mrs S. Gross, Yoram Gross-EM.TV, *Transcript of Evidence*, 5 September 2003, p. 4.

44 Mr G. Siegele, Ratbag Services, *Transcript of Evidence*, 30 September 2003, p. 3.

45 Of course, there is still the tyranny of distance that has been referred to earlier.

4.40 Australians on the other side of the world from the major production centres can ‘work while they sleep’:

Many international game, effects, and animation companies have located production centres around the world so the development process is unbroken, with a 24-hour work cycle that follows the sun.⁴⁶

4.41 However, more work is necessary to bring this opportunity to life:

But in terms of the post-production that is being done here, it is just sent in bits and pieces and very often by courier, which loses advantages. It loses a couple of days in getting the courier across; it loses that day to night advantage—the “follow the sun” ability we have in being able to do a day’s work here and then, as we are finishing our day, to send it either to London or to Los Angeles when they are just starting their day.⁴⁷

4.42 Australia is in the same time-zone as the region that is increasingly important to the world economy: Asia. Austrade testified that even though the US market was substantial, there were other markets with potential, including China, Korea, India, Vietnam and Singapore.⁴⁸ This opportunity is beginning to be realised:

We can be a source of expertise and services directly from Australia for film industries in the surrounding area. In the future perhaps, we could look to places such as Indonesia, Singapore, Malaysia and other areas as the film industry expands. I think we will have to diversify into Asia. We have already seen strong interest from China. We are working with Vietnam, for example, at the moment. They are interested in training their television technologists in Australia. We are working with them to see if we can achieve that. Those sorts of contacts for the future will be invaluable, because you build the personal relationships that later grow into business.⁴⁹

4.43 Mr James Mitchell outlined a project involving productions with companies located in Asia and stated:

We need to encourage greater Australian involvement in regional and international film production, by creating strategic alliances

46 Film and Television Institute of Western Australia, submission no. 2, p. 3.

47 Mr D. Case, FIBRE, *Transcript of Evidence*, 4 September 2003, p. 16.

48 Mr L. Downey, Austrade, *Transcript of Evidence*, 8 October 2003, p. 2.

49 *ibid.*, p. 7.

and co-production agreements. This will obtain the maximum cultural and economic benefits for Australia with countries in the Asian time zone ...⁵⁰

- 4.44 As English is the dominant language in Australia, there is an entrée to important and emerging world markets. It represents both a competitive advantage⁵¹ and a point of risk:

As another English language country, up against the two giants of the UK and America, which are enormous production powerhouses, unless there is a degree of protection for the local industry we are likely to be bowled out.⁵²

- 4.45 The English language market is not the only market opportunity. Australia has a multicultural community in which the world's major language groups are represented. SBS, a national public broadcaster, has considerable language and cultural resources. So, there is an example of a national capacity that provides opportunities to develop cultural and artistic relationships across the world.

Opportunities by sector

- 4.46 The Committee was told about specific instances where Australian talent and creativity has opportunities to produce creative content that the world will want. These can grow from developing the existing infrastructure.

Feature film

- 4.47 AusFILM anticipated that unless the various support arrangements offered by the Australian Government were changed, domestic production was unlikely to increase. However, AusFILM noted 'it is international productions which offer the greatest scope for growth in the industry in the current financial climate'.⁵³
- 4.48 Fox Studios Australia considered Australia enjoys significant opportunities in attracting runaway production from the US.⁵⁴ Producer, Ms Sue Milliken, noted that recent international events and local

50 Allanbank International, submission no. 101, pp. 11–13. Opportunities in the Asian market were noted by others, for example, the Film and Television Institute of Western Australia, submission no. 2, p. 8.

51 Mr T. Brooke-Hunt, Pacific Vision, *Transcript of Evidence*, 5 September 2003, p. 32.

52 Mr N. Milan, SBS, *Transcript of Evidence*, 17 September 2003, p. 10. See also Mr T. Brooke-Hunt, Pacific Vision, *Transcript of Evidence*, 5 September 2003, p. 32.

53 AusFILM International, submission no. 88, p. 9.

54 Fox Studios Australia, submission no. 75, p. 3.

conditions had depressed production, but that Australia possesses considerable capacity and opportunity:

Currently, the film and television production industry is smaller than it could be, due to a downturn in funding both national and international, which includes a lack of offshore production coming to Australia probably due to the weak economy of the US and the fear of international terrorism.

The industry's capacity would be at least one and a half times its current scale, based on present infrastructure.⁵⁵

- 4.49 The Australian Children's Television Foundation (ACTF) stated its 'experience has been that Australian product at the higher end [of production quality] is in demand...' ⁵⁶ This perspective on opportunities is supported by Ms Milliken:

The low budget "comedy" feature films of which there has been a plethora over the past few years, generally do well at the box office in Australia but do not export. Australian films need to step up into a new league, of more complex, interesting stories and greater production values. This means some films with bigger budgets.⁵⁷

- 4.50 The success of the New Zealand-produced *Lord of the Rings* trilogy and *Whale Rider* is well known.⁵⁸ These films have strong stories and high quality production values. They attract audiences. There appears to be an export (and domestic) market for high quality Australian made films. This can be either 'runaway productions', which are essentially a foreign film purchasing Australian production services, skills and talent, or Australian scripted and developed products, such as *Lantana* or *Shine*, which are successful on the world stage. The audiences exist, here and abroad, but it appears there is a lack of attractive Australian cinema product.⁵⁹

55 Samson Productions, submission no. 31, pp. 1-2.

56 ACTF, submission no. 29, p. 12.

57 Samson Productions, submission no. 31, p. 3.

58 W. Owen, 'NZ Film Industry on a roll', *The Independent*, 31 January 2004, reports that the third film in the trilogy, *Return of the King*, has taken over \$1 billion at the box office, while *Whale Rider*, has taken some US\$38 million worldwide.

59 J. Mills, an Associate Senior Research Fellow at the Australian Film Television and Radio School, ('The Trouble with local films is local film-makers', *Sydney Morning Herald*, 22 October 2001, p. 16) reported that the production values and scripts of Australian films are not attractive to audiences. One cinema patron, who claimed to like Australian films, told Ms Mills: 'When I go out on a date, I want a good time. It's too risky to choose an Australian film'.

Animation

- 4.51 From the evidence available to the Committee, animation—and the flexibility it offers—represents a significant market opportunity:

Games production and animation in many respects have a greater potential market than Australian film, as the product can be readily localised. Different languages, types of voices, changes of character, or situation are not insurmountable barriers when an export market requires changes to suit that market. In film, such changes are often not financially possible.⁶⁰

- 4.52 The Screen Producers Association of Australia (SPAA) stated that ‘animation production is a significant and growing sector of the [film and television] industry with the potential to grow further and to take full advantages of advances in digital technology’.⁶¹

- 4.53 The Chief Executive Officer of Pacific Vision considered Australia’s reputation in animation was strong and, despite a highly competitive international market, there are opportunities:

We can do it. Our projects have to be tiptop. We have to have them really well developed. We have to then be able to give people confidence we can deliver 26 half hours of animation, which is a lot of animation. More importantly, we have to convince them we are going to make it in a way that is going to work internationally.

All of those things can happen. ... It is made difficult here by the fact that the domestic Australian market does not give a lot of finance to those shows in the way that other countries do that I mentioned, like France and Canada.⁶²

Documentaries

- 4.54 Australia already exports documentary programs, and there are increasing opportunities:

... we now roughly have the market for documentary product divided into two sectors. The first market, which is quite lucrative, comprises large public broadcasters, such as the BBC, the Canadian Broadcasting Corporation and so forth and the larger

60 Film and Television Institute of Western Australia, submission no. 2, p. 3.

61 SPAA, submission no. 33, p. 16. This was supported by Yoram Gross-EM.TV, submission no. 63, p. 9.

62 Mr T Brooke-Hunt, Pacific Vision, *Transcript of Evidence*, 5 September 2003, p. 32. He also referred to success with US-based investors, p. 31.

privately owned networks, be they terrestrial, satellite or cable. They include Discovery and so forth—the big ones.

The second market comprises the multiple cable satellite niche operations around the world. They are expanding all the time. Our figures show that in a period of a year we have increased our sales by 90 per cent in terms of the numbers of titles that we have been able to sell overseas—that is with national interest material, primarily—although the revenues coming back to us have only increased by 58 per cent. So we are mostly selling to that second fragmented market where there are more opportunities for sales, but they return much less money.⁶³

4.55 Film Australia told the Committee the countries that had purchased its programs included Sweden, the Netherlands, Denmark, Finland, Canada, Israel, China and France, but that the fees were quite low—in the range US\$500-\$1500 per program.⁶⁴

4.56 The FFC referred to Australia's vibrant documentary production sector that makes:

... on average, 600 hours of programming annually, on a wide range of subjects encompassing all the program niches sought by pay TV channels. Australian documentaries are internationally acclaimed and sell to the world's major cable and free-to-air broadcasters, including the BBC and Channel Four (UK), ZDF and Arte (Germany), PBS (US) and NHK (Japan).⁶⁵

4.57 Australian viewers also respond positively to locally made documentaries when they are well-resourced and promoted:

... when you make a series ...[26 episodes] long, you give it the production values we were able to give it and the network can program it over a considerable part of the year and you amortise its promotional costs across 26 episodes as opposed to having a lot of on-air promos that cost money to make to publicise a one-off one hour, the audiences will be there. The figures for *Our Century* were remarkable. It won its slot practically every week that it

63 Ms S. Connolly, Film Australia, *Transcript of Evidence*, 26 November 2003, pp. 5–6. In Chapter 2 there is discussion on the documentary sector's market.

64 Film Australia, submission no. 82, p. 16. Evidence from the FFC supports this: submission no. 70, p. 11.

65 FFC, submission no. 70, p. 21.

aired. The network was happy, the advertisers were happy and, most importantly, the audience was happy.⁶⁶

4.58 ScreenWest contended that Western Australia has a strong, export-oriented documentary sector, supported locally:

... this is a good example of how governments all can work in supporting the film industry ... for business support as opposed merely to encumber productions with particular investments.

Those companies, a handful of them, have established an international reputation for documentary production. A couple of them fund themselves essentially by making documentaries for export. They win export awards and that is pretty much what they do.⁶⁷

4.59 The evidence suggests there are export opportunities for Australian documentaries.⁶⁸ Programs in Tasmania, Western Australia and South Australia foster the development of regional talent and facilities, which can be used should larger projects be undertaken. They ensure that documentaries are not a vision confined to the larger population centres of the eastern seaboard.

Co-productions

4.60 AusFILM described co-production as 'The area of the greatest growth over the last decade, and the area for the most potential growth'.⁶⁹ This was supported in other evidence.

4.61 Ambience Entertainment, Atlab, the Omnilab group, Panavision Asia Pacific and Spectrum films supported the broadening and strengthening Australia's co-production treaty regime to inject more financial resources and thereby initiate more productions in which Australian enterprises and artists are engaged.⁷⁰

66 Ms S. Connolly, Film Australia, *Transcript of Evidence*, 26 November 2003, p. 4.

67 Mr J. Bean, ScreenWest, *Transcript of Evidence*, 30 September 2003, p. 45.

68 Mr J. Nicoll, Screen Tasmania, testified about opportunities for documentary in Tasmania, *Transcript of Evidence*, 30 September 2003, p.23. Ms J. Crombie, South Australian Film Corporation, referred to that Corporation's incubator program, *Transcript of Evidence*, 30 September 2003, p. 11.

69 AusFILM International, submission no. 88, p. 6. This was supported by Allanbank International, submission no. 101, p. 11.

70 Ambience Entertainment et al, submission no. 100, p. 19. Pacific Vision submitted that co-productions be fostered because they provide additional opportunities for finance for Australian producers and market access (submission no. 51, pp. 2-3 and submission no. 95, pp. 1-2). This was supported by the SPAA, submission no. 33, p. 16.

4.62 Australia already has an essential infrastructure element for successful co-productions: public broadcasters with much in-house talent, and publicly supported niche producers, such as the ACTF. As noted, SBS, which broadcasts in more than 60 languages,⁷¹ has a skilled language base for use in foreign language co-productions. Australia's film makers are not, therefore, confined to the Anglophone world.

Children's programs

4.63 Australian children's television products enjoy some success abroad, being distributed in more than 100 countries.⁷² Although there is ongoing interest from overseas markets, this interest is under pressure 'as overseas markets continue to gear up their own producers'.⁷³

4.64 The ACTF noted the Australian industry's dependence

... on an international market to be sustainable and that the international market, over the last few years, has really been very slow. There has been a downturn in advertising revenues across the world and there has been a slowing down of buying product. There is also a reaction to American content in Europe which, as a by-product, has affected Australian producers, because Europe is a very strong market for our product.⁷⁴

4.65 Although there is ongoing interest and foreign broadcasters are continuing to purchase Australian programs,⁷⁵ the Committee was told that programs generally do not break even initially, although they do over the long haul.⁷⁶ Children's programs have in-built market renewal as the audience is renewed every five years.⁷⁷ Given this, and the continued interest from around the globe in Australian children's programs, there appears to be an ongoing and possibly enlarging market for children's programs, and potentially for related, bundled digital content.

4.66 ScreenWest described the commercial attractiveness of children's television programs:

71 SBS, *Annual Report, 2002-03*, p. 2.

72 ACTF, *Transcript of Evidence*, 27 August 2003, p. 39.

73 FFC, submission no. 70, p. 11.

74 Mrs J. Buckland, ACTF, *Transcript of Evidence*, 27 August 2003, p. 39.

75 The ACTF testified that the BBC had paid a licence fee for a current production of the ACTF that amounted to 40 per cent of the cost of production. Mrs J. Buckland, ACTF, *Transcript of Evidence*, 27 August 2003, p. 40.

76 *ibid*, p. 44.

77 *ibid*.

Generally the Film Finance Corporation will tell you that children's is the best returning area of any genre of what they invest in. I call animation a blue chip area of investment because it is very international.⁷⁸

Cross-platform content creation

4.67 Increasingly, a single idea can generate a motion picture, a game, and a website. That is, a single item of intellectual property will be modified and provided in different delivery formats. Each platform for the delivery of intellectual property franchises the property and adapts it to the delivery system:

One thing that our country needs to learn is that it is not the games anymore and it is not films anymore; it is all about franchises. ... They launched *The Matrix* and at the box office on the opening weekend they earned, I think, \$US77 million. In that same time frame they had shipped about \$US80 million worth of retail sales of the game.⁷⁹

4.68 The Film and Television Institute of Western Australia (FTI WA) noted that major international film and television production companies have gained the intellectual property opportunities by:

... integrating film releases and TV shows with game products, and merchandising. DVD releases have substantial additional material and interactivity including games to entice the theatregoer to later rent the DVD. ... Most productions also have extensive web sites, and these are used to cross promote products associated with the production. With the exception of the *Wiggles*, and to a lesser degree *Bananas in Pyjamas*, and *Hi-Five*, Australian film and television production companies have not embraced such cross marketing or franchise maximising.⁸⁰

4.69 A single creative idea can be adapted to different but familiar platforms, and also to new platforms, such as SMS messaging, the internet, and interactive television. RMIT University referred to the transportability of content from one platform to another:

A key development is multiplatforming, where a piece of intellectual property (for example a film) is developed on one

78 Mr T. Brooke-Hunt, Pacific Vision, *Transcript of Evidence*, 5 September 2003, p. 31.

79 Mr R. Walsh, Krome Studios, *Transcript of Evidence*, 24 July 2003, p. 40.

80 FTI WA, submission no. 2, p. 7. See also Mr M. Hollands, Act3 Animation, *Transcript of Evidence*, 28 August 2003, p. 66.

platform (such as for cinema utilisation), but simultaneously or subsequently developed on another platform, such as DVD or as a game. This offers the opportunity for both business and technological development that in turn adds significantly to the value of the creative endeavour and will require further educational development. Locally developed creative output that can be multiplatformed will add significantly to its export value.

A logical development of this trend is the consideration of games potential when film scripts are being developed. The way in which cutting edge developments in effects and animation may be integrated will also influence content or format.

One possible scenario, in relation to film, identified by RMIT is that the rise of DVD and other interactive formats relies for its appeal on rich or elaborated content (interviews with key creative personnel, biographies, resource materials etc). In these formats the “local” is literally the added value.⁸¹

- 4.70 The Australian Broadcasting Corporation (ABC) has used the same creative content in different formats, for example, the interactive television and multimedia *Long Way to the Top* concert and the drama series, *Fat Cow Motel*.⁸²

Based in the fictitious country town of Fat Cow, the program is Australia’s first multi-platform drama event which exposes audiences to the unique, integrated use of new media platforms including the Internet, email, SMS, voice mail, interactive TV, as well as free to air television.

Each of the 13 half hour episodes contains a lateral thinking mystery for the audience to solve, relying on clues from the program and other sources including SMS, email and the website.⁸³

- 4.71 The ABC was conscious that a more systematic approach to developing intellectual property for multiplatform use is being used abroad:

... the BBC has established a cross media approach in order to position itself for the move to new media and interactive television. All producers commissioning television content at the BBC now have to state what the interactive component of the

81 RMIT University, submission no. 55, p. 7.

82 ABC, submission no. 22, pp. 9-10.

83 *ibid.*, p. 8.

project will be, if any, to show that they have considered the implications for online and interactive television.

In Canada, the Bell Broadcast and New Media Fund has a definite cross-media funding agenda and specifically supports productions that adopt a multi-platform approach from the outset.⁸⁴

- 4.72 Such use of intellectual property is increasing and forming an important market. Mr Ian Robertson, chair of AusFILM, anticipated that the market for products based around a common piece of intellectual property would increase, with some games achieving greater revenue than the film and the film being created to promote the game.⁸⁵

Digital production

- 4.73 'Digital production' refers to computer animation, visual effects and computer generated imagery for film, television and new media.⁸⁶

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.⁸⁷

- 4.74 The amount of digital production is increasing each year as a percentage of the total budget of a project. Digital production is becoming an increasingly important factor in the choice of location:⁸⁸

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

84 *ibid.*, p. 11.

85 Mr I. Robertson, AusFILM International, *Transcript of Evidence*, 4 September 2003, p. 52.

86 Animal Logic, submission no. 83, p. 2.

87 *ibid.*

88 *ibid.*, p. 3.

increase in the coming decade, potentially to levels equal to the physical production spend of any given project.⁸⁹

- 4.75 Australian digital houses also attract significant sources of their business from abroad. Foreign sources account for 90 per cent of Animal Logic's business⁹⁰ and 40 per cent of Cutting Edge Post's business.⁹¹ Such success would support Animal Logic's claim that digital production is developing into a 'stand alone' industry, capable of attracting work on its own merits:

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. ...

[Digital production] 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.⁹²

- 4.76 The export possibilities of digital production may extend to post production. BEEPS submitted that, with appropriate policies and support, 'Exports of a truly commercial nature will present themselves for Australian products'.⁹³ The potential for digital production and post production was also suggested by Cutting Edge Post, a winner of the 2003 Australian Export Awards. It has continued to expand through overseas contracts despite the slump in the Queensland film production industry.⁹⁴
- 4.77 Significant opportunities exist for Australia to export the skill of domestic post production and digital production suppliers. Agencies of the respective state and Australian governments should place more emphasis on highlighting to offshore productions the opportunities to utilise post production facilities in Australia.
- 4.78 In each market segment there is a clear need for a coordinated attempt to harness the synergies of convergence in the market with regard to the training of apprentices, undergraduates, and graduates, as well as the

89 *ibid.*

90 Animal Logic, submission no. 102, p. 2.

91 Cutting Edge Post, submission no. 20, p. 1.

92 Animal Logic, submission no. 83, p. 3.

93 BEEPS, submission no. 34, p. 18.

94 Cutting Edge Post, submission no. 20, pp. 3–4. See Anon. *2003 Australian Export Awards*, Charlton Publishing, p. 16; P. Syvret, 'Export success offsets production slump', *The Australian*, 5 January 2004.

development of 'critical mass' and the sharing of knowledge between new market suppliers and producers.

Recommendation 9

- 4.79 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.**

Television

- 4.80 This is another industry that depends on the international market. In the past, Australian television productions have been exported with some success, for example *Water Rats* was sold in Germany and *Heartbreak High* was sold into France and Germany.⁹⁵ But evidence suggested that the overseas market for Australian television programs had contracted:

The biggest challenge for the Australian industry at the moment is that we are completely dependent on an international market to be sustainable and that the international market, over the last few years, has really been very slow. There has been a downturn in advertising revenues across the world and there has been a slowing down of buying product. There is also a reaction to American content in Europe which, as a by-product, has affected Australian producers, because Europe is a very strong market for our product. Also, the licence fees that broadcasters pay to screen programs have been very static around the world for a couple of years.⁹⁶

- 4.81 Evidence indicated that overseas television markets tend to be quite inward looking, preferring to make their own programs rather than

95 Mr G. Brown, SPAA, *Transcript of Evidence*, 5 September 2003, p. 46; see also Ms S. Levy, ABC, *Transcript of Evidence*, 27 August 2003, p. 7.

96 Mrs J. Buckland, ACTF, *Transcript of Evidence*, 27 August 2003, pp. 39–40.

purchase them from abroad.⁹⁷ So, there are quite limited opportunities to sell television into a television domestic zone.⁹⁸

4.82 Other barriers that were mentioned included the lack of international stars, the inability to offer 'output' or bundling deals⁹⁹ and the practice of foreign broadcasters to purchase the format of a program and produce it domestically, rather than buy the foreign-produced program.¹⁰⁰

4.83 However, other evidence indicated there are opportunities and interest in Australian producers by foreign broadcasters in animation,¹⁰¹ live-action children's programs,¹⁰² 'high-end' documentaries,¹⁰³ and adult drama (for example, *McLeod's Daughters*, sold to over 100 countries).¹⁰⁴ The programs may be financed completely in Australia or be co-productions.¹⁰⁵ Often the returns come not from a single large sale but from many smaller sales:

... programs sell to markets for small amounts of money. There may be 30 sales to cover the deficit but not taking it into profit. It is very difficult to sell for a significant price. Sometimes the sale will go to a territory and it will be worth \$2,000 an episode, \$500 an episode, \$1,500 an episode—very small amounts of money—and the cost of maintaining a sales division is a factor.

Australian sales agents need to have salespeople out in the field covering Asia, Africa, South America, Europe. There are many broadcasters to sell to, but the value of each sale is very small. So there are sales opportunities available, but they are tiny and you are mostly selling for nonprime time. So Australian material is sold into non-prime time for small amounts of money.¹⁰⁶

97 D. Enker, 'No dramas?', *The Age*, 8 January 2004. See also Ms S. Levy, ABC, *Transcript of Evidence*, 27 August 2003, p. 3.

98 Ms S. Levy, ABC, *Transcript of Evidence*, 27 August 2003, p. 3.

99 *ibid.*

100 See paragraphs 4.18-4.21 above.

101 See Pacific Vision, submission no. 51, p. 2 and Yoram Gross-EM.TV, submission no. 63, p. 7 for discussions of the opportunities in animation, along with Mr T. Brooke-Hunt, Pacific Vision, *Transcript of Evidence*, 5 September 2003, pp. 29–31.

102 Mrs J. Buckland, ACTF, *Transcript of Evidence*, 27 August 2003, p. 40.

103 Ms S. Connolly, Film Australia, *Transcript of Evidence*, 26 November 2003, pp. 5–6.

104 Mrs J. Crombie, South Australian Film Corporation, *Transcript of Evidence*, 30 September 2003, p. 14.

105 Mrs J. Buckland, ACTF, *Transcript of Evidence*, 27 August 2003, p. 40, and Mr T. Brooke-Hunt, Pacific Vision, *Transcript of Evidence*, 5 September 2003, pp. 29-31.

106 Ms S. Levy, ABC, *Transcript of Evidence*, 27 August 2003, p. 8.

- 4.84 It appears there is a market, although a competitive one, for Australian television programs, whether financed solely within Australia or co-productions. The SPAA also submitted that the potential for additional television production in Australia would increase with the introduction of High Definition television.¹⁰⁷

Electronic games

- 4.85 As noted, the global market for electronic games is predicted to increase markedly over the next five years.¹⁰⁸ Evidence indicated that Australia has a highly respected game development industry, operating at present on a largely 'fee-for-service' basis, with most revenues from off-shore sales:

The Australian industry can be characterised really as a fee-for-service industry. We are making games for American publishers, sometimes European publishers. They own the intellectual property. They also make the majority of profit out of the games. All the Australian developer does is get a margin on the work they do.¹⁰⁹

- 4.86 Mr Adam Lancman of the Game Developers' Association of Australia (GDAA) considered that the opportunities lie off shore, making products that are attractive to an international market:

If you define the marketplace as the world, because that is how we [the GDAA] see it as an association, and you look at the revenue of our members, probably 98 per cent of revenue is export. We don't make games for the Australian market. If you are spending \$5 million on making a game, you are never going to recoup that in sales in Australia. It is just too small.¹¹⁰

- 4.87 Ms Sandra Davey of the Australian Interactive Media Industry Association (AIMIA) testified:

Australia has excellent expertise and experience in games development. The bulk of our successes so far tend to be in the PC console based environment. Given Asia's absolute fascination with

107 SPAA, submission no. 33, p. 10. High definition television is discussed further at paragraph 4.144 below.

108 Exhibit no. 119: PricewaterhouseCoopers, *Australian entertainment and media outlook, 2003–2007*, PricewaterhouseCoopers: Sydney, 2003, p. 4.

109 Mr G. Siegele, Ratbag Services, *Transcript of Evidence*, 30 September 2003, p. 4.

110 Mr A. Lancman, GDAA, *Transcript of Evidence*, 20 August 2003, p. 8.

broadband and wireless and other types of devices, we think that there is an extraordinary market opportunity for us in Asia.¹¹¹

- 4.88 The market potential stretches to all countries that have broadband access. The game opportunities also go beyond PC or console games to the emerging world of massively multiplayer online games:

We know that the current focus, for instance, for the games industry is on console games, because that is where the market is right now in the US. But we absolutely believe the future is multiplayer online games and, ultimately, the future is wireless. This is why AIMIA's focus is in the digital content industry and not just film or animation or games, are looking at trends that are happening overseas. We would absolutely say that broadband and wireless is where things are heading and where we need to be looking.¹¹²

- 4.89 Witnesses suggested that opportunities exist for Australian developers to evolve into the developers and controllers of their own intellectual property, should appropriate policies be implemented.

What kind of a business do we have to build that will actually be around in 10 years? It is not going to be a fee-for-service business. ... there is an amalgamation of interest occurring internationally and it is all to do with the exploitation of intellectual property. ... It is where the Americans and the entertainment industry in general—but it is dominated by the Americans—are seeing the future. That is where the profits are—from exploitation of IP, not from fee-for-service production.¹¹³

- 4.90 Australia's game industry must develop and market its own IP, but must also retain a cash flow. Opportunities, according to witnesses, are likely to be found in striking a balance between the development of Australian IP and taking on fee-for-service commissions:

The issue in moving forward is to continue to be able to compete for those very large deals ... that are now the \$US5 million-plus kind of game—fewer of them but much larger projects requiring much larger project teams of at least 30 people, and probably over the next two years a minimum of 50 people per project full time

111 Ms S. Davey, AIMIA, *Transcript of Evidence*, 5 September, 2003, p. 24; see also AIMIA, submission no. 42, p. 8.

112 Ms L. Van Rooyen, AIMIA, *Transcript of Evidence*, 5 September 2003, p. 26. See also AIMIA, submission no. 42, p. 8.

113 Mr Michael Hollands, Act3 Animation, *Transcript of Evidence*, 28 August 2003, p. 66. See also Micro Forte, submission no. 40, pp. 3-4.

for two years. Another part of that is putting the industry in a position where it can develop its own IP. The more concepts and prototypes that companies can develop and take to a publisher and look to do a distribution deal, and the more self-financed they are within Australia, then the more leverage our companies will have when they are negotiating these deals, particularly regarding the royalties and the flow-on profits coming back.¹¹⁴

4.91 Opportunities also exist in the development of simulators:

Gaming for Australia also means there is a huge market in simulators, and the same skills that are used in gaming—game design, game building, game construction—are used in all kinds of industrial simulation. Major game companies in other parts of the world have cloak subdivisions that are doing this sort of stuff for the military.¹¹⁵

Infrastructure needs

4.92 Australia's film and game industries see considerable opportunities already and more that will emerge. To take advantage of these, the industries require skilled participants and state of the art infrastructure. Participants in the industries believe that some work is required on these.

Studio and production facilities

4.93 World class motion picture studios are located on the Gold Coast, in Sydney and in Melbourne. South Australia has studios but they are not of industry standard, the Committee was told.¹¹⁶ Tasmania and Western Australia do not have large scale studios that could support feature film projects.¹¹⁷

4.94 Up-to-date studio infrastructure is crucial to the development of the Australian film industry, according to the ACTF:

The success and growth of the Australian film and television industry is dependent upon an adequate infrastructure to

114 Ms E. Richardson, GDAA, *Transcript of Evidence*, 20 August 2003, p. 2.

115 Mr T. Lubin, FTI WA, *Transcript of Evidence*, 30 September 2003, p. 39.

116 Mrs J. Crombie, South Australian Film Corporation, *Transcript of Evidence*, 30 September 2003, p. 14.

117 Mr J. Nicoll, Screen Tasmania, *Transcript of Evidence*, 30 September 2003, p. 23 and Mr J. Bean, ScreenWest, *Transcript of Evidence*, 30 September 2003, p. 47.

accommodate and support local industry. The availability of studio space is recognised as an essential element of development and growth.¹¹⁸

The government of Western Australia acknowledged this and noted that state's need for production studio facilities if the industry is to develop.¹¹⁹

- 4.95 ScreenWest noted the role of studios in enabling states to participate in the film and television industry:

It [Western Australia having a film studio] comes back to the argument about whether it is worth having WA participate in this industry in Australia and contribute to the critical mass of the Australian industry. If the answer is yes, then it is worth having an infrastructure there for it. At what level is open to argument.¹²⁰

- 4.96 Does Australia need studio facilities in every state? ScreenWest suggested that it does—for cultural reasons:

Can we afford a relatively small industry that requires a fair bit of infrastructure to operate in half a dozen major cities in a country where the population cannot afford to sustain investment in individual productions at a very high level at all, anyway? ...

It can and should because the regional capitals that house this industry and that insist, for their own reasons, on being part of it are cultural centres.¹²¹

- 4.97 Studios act as hubs around which a local industry can grow:

... the Fox studios complex in Sydney has developed as an industry hub housing a diverse range of industry businesses including digital effects and postproduction houses, film processing equipment hire, casting consultants and composers. The development of such a "hub" and the increase in studio space has enhanced the reputation of Australia as a favourable film production location stimulating income and employment for industry businesses and professionals.¹²²

However, the studio will set the direction for the hub and therefore not all interested parties may be catered for.

118 ACTF, submission no. 29, p. 8.

119 WA Minister for Culture and the Arts, submission no. 6, p. 6.

120 Mr J. Bean, ScreenWest, *Transcript of Evidence*, 30 September 2003, p. 47.

121 *ibid.*, p. 41.

122 ACTF, submission no. 29, p. 8.

- 4.98 The same type of facility may not be required in every state; facilities should be adapted to the type of industry hosted by that state:

We have thought about the possibility of having a studio, but it is probably not realistic in a state the size of Tasmania. It is probably better to be thinking about animation and broadband. Social documentaries are another area where there are quite strong writers... They are the kinds of things that can work in Tasmania. We have stayed away from the idea of big capital investment items.¹²³

The Committee notes the point made by ScreenWest, above, that the regional capitals that seek to house these facilities are also cultural centres.¹²⁴

- 4.99 It is clear from the evidence that each Australian jurisdiction is developing a film and game industry tailored to the local community's infrastructure. Western Australia has, according to its government, a world class documentary making community¹²⁵ as well as electronic games and animation;¹²⁶ Tasmania is developing a world class animation community, content for broadband, CD-ROM and social documentary sectors.¹²⁷

Access to state-of-the-art software and hardware

- 4.100 To remain competitive, the creative industries rely not only on industry standard infrastructure, but also industry standard software and hardware. Speaking for the digital production-visual effects industry, BEEPS submitted: 'The sustainability of the Australian industry's success is to embrace and develop new technology'.¹²⁸
- 4.101 This point was reinforced by Light Knights Productions which noted that without access to the latest versions of software applications the industry could stagnate.¹²⁹

123 Mr J. Nicoll, Screen Tasmania, *Transcript of Evidence*, 30 September 2003, p. 23.

124 Mr J. Bean, ScreenWest, *Transcript of Evidence*, 30 September 2003, p. 41.

125 WA Minister for Culture and the Arts, submission no. 6, p. 2; Mr J. Bean, ScreenWest, *Transcript of Evidence*, 30 September 2003, p. 45.

126 Bungarra Software, submission no. 41, p. 2 and Lizard Edutainment, submission no. 97, p. 1.

127 Tasmanian Government, submission no. 73, p. 5 and Mr J. Nicoll, Screen Tasmania, *Transcript of Evidence*, 30 September 2003, p. 23.

128 BEEPS, submission no. 34, p. 1.

129 Light Knights Productions, submission no. 48, p. 6.

- 4.102 Creative industry enterprises acquire software and hardware from third parties and, in order to remain internationally competitive, also develop their own:

For companies at the forefront of the Digital Production industry, the ability to maintain technological advantage through Research and Development is imperative. ... 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. ... [E]ach project has unique and essential R&D requirements that cannot necessarily be commercialised outside of each specific production.¹³⁰

- 4.103 Hardware and software dates quickly, particularly in the computer animation industry:

... 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.¹³¹

- 4.104 The cost of maintaining industry standard software and hardware imposes a considerable burden upon small enterprises.¹³²

- 4.105 Light Knights Productions was specific about the burden imposed:

... 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.¹³³

130 Animal Logic, submission no. 83, p. 5.

131 Light Knights Productions, submission no. 48, p. 6.

132 Mr M. Hollands, Act3 Animation, *Transcript of Evidence*, 28 August 2003, p. 70.

133 Light Knights Productions, submission no. 48, p. 6.

- 4.106 Apart from the cost of software and hardware, there is an issue with the infrastructure required to distribute the content:

... we are really talking about there in terms of the back-end support is the various software mechanisms and content management systems and content distribution mechanisms which make it cost-effective and simple to distribute our content across new platforms as they become viable and accessible for the audience at large. For example, a program at the moment which is broadcast on ABC TV might also appear on ABC Online in a broadband format—video delivered online and with text and interactive elements—and segments of that will now also go out via SMS and through wireless delivery mechanisms. They also appear on an interactive television environment. It is the ability to simply and easily manage and distribute that content without replicating production models across each platform which is a key part of the development of the industry going forward.¹³⁴

- 4.107 To summarise, it seems there are two distinct problems facing the creative content industry: the cost of the software and hardware to *create* content; and the availability and cost of the software and hardware required to *distribute* content.

Recommendation 10

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

- 4.109 The Committee notes the difficulty firms face in evaluating the wide variety of expensive, yet constantly changing, suites of software. Light Knights Productions argued that there was a need for technology-relevant research and to evaluate new technologies.¹³⁵ The Committee supports this suggestion and notes that it could be pursued through the creative industries think tank discussed in Chapter 6.

134 Ms L. Marshall, ABC, *Transcript of Evidence*, 27 August 2003, p. 8.

135 Light Knights Productions, submission no. 48, p. 7.

Recommendation 11

- 4.110 **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.**

Film and television schools' access to contemporary technology

- 4.111 The future of the industry is bound up with the training opportunities provided. To take advantage of the opportunities emerging in the creative industries, Australia must have talented professionals, trained in the latest techniques, on the latest equipment. World standard infrastructure is therefore required in order to train the next generation of creative personnel to produce the content that consumers want.

- 4.112 Talented creative industry practitioners emerge from training 'on-the-job' and, from education and training institutions: universities, technical and further education colleges and institutes of technology. The problem facing these institutions, the Committee was told, is that the cost of maintaining state-of-the-art infrastructure is high and institutions are having difficulty affording the state-of-the-art equipment they need.¹³⁶

- 4.113 This is particularly the case in the area of digital media. Mr David Muir testified:

... with the advent of digital media, there are going to be huge loads on the educational institutions, because the move to high-definition television, for instance, involves completely re-equipping not only the television stations et cetera but also the educational institutions, since nobody at the moment has the upper end of the technology required for this.¹³⁷

- 4.114 The need to re-equip educational institutions for digital production was also raised by the Victorian College of the Arts (VCA):

Most of the work we presented to you this morning and the equipment you saw as we walked around were funded from 1996. Our next big challenge is to actually teach our students the methodology in the industry of working with the widescreen ratio

136 Professor M. Bramley-Moore, Queensland College of Art, *Transcript of Evidence*, 24 July 2003, p. 7.

137 Mr D. Muir (private capacity), *Transcript of Evidence*, 28 August 2003, p. 50.

that we have introduced with both standard-definition and high-definition digital television.¹³⁸

- 4.115 The Queensland College of Art (QCA) also noted the need to train students adequately and the resulting cost of re-equipping its television studios for high definition digital production:

...it is important to turn out people ready for the industry and to ensure that good product that is coming out of the school can be screened. If we do not make this jump, we could have a fantastic product produced by a final year student or a postgraduate student but they would not be able to get it on television because people will not look at it.¹³⁹

- 4.116 QCA discussed the costs associated with refitting the college's television studio for high-definition television:

As I say, we are working in DVCAM format. We can go widescreen for that for \$50,000 a camera. If we want to go high definition, we are looking at \$130,000 to \$180,000 a camera. For a television studio with three cameras you are trebling the cost.¹⁴⁰

- 4.117 The VCA set out the issue of supporting training properly: 'If the industry is to going to make any kind of progress in Australia, the cost of training has to be recognised'.¹⁴¹ But the cost is high: 'The school actually lurches from crisis to crisis in terms of keeping ourselves equipped.'¹⁴²

138 Mr D. Price, VCA, *Transcript of Evidence*, 28 August 2003, p. 3. Overseas sculpture students have expressed concern over the standard of the facilities at the VCA: J. Buckell, 'Disappointed by the VCA', *The Australian*, 30 July 2003.

139 Professor M. Bramley-Moore, QCA, *Transcript of Evidence*, 24 July 2003, p. 6.

140 Mr D. Mayocchi, QCA, *Transcript of Evidence*, 24 July 2003, p. 7.

141 Professor A. Hull, VCA, *Transcript of Evidence*, 28 August 2003, p. 5.

142 Professor J. Sabine, VCA, *Transcript of Evidence*, 28 August 2003, p. 3.

Recommendation 12

- 4.118 **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.**

Access to broadband by content producers and consumers

- 4.119 Access to high capacity broadband connections at affordable prices has been recognised by the Australian Government as essential to a world-class creative digital industry sector.¹⁴³ The Australian Government has taken an active role in enabling creative digital industries to connect to broadband, including the creation of FIBRE—the Film Industry Broadband Resources Enterprise—in 2001.¹⁴⁴
- 4.120 This was followed by the establishment of the Broadband Advisory Group (BAG) in March 2002, to provide high-level advice on the development of the broadband market in Australia and to conduct a strategic review of broadband policy, to help stimulate the availability and take-up of broadband.¹⁴⁵ The report of BAG, *Australia’s broadband connectivity*, recommended the Australian Government promote the adoption of broadband by business and domestic consumers. The vision was:

Australia will be a world leader in the availability and effective use of broadband, to deliver enhanced outcomes in health,

143 Broadband Advisory Group, *Australia’s broadband connectivity*, Canberra, Commonwealth of Australia, 2003, p. 11, has a listing of some of the investments made by the Australian Government in broadband and telecommunications infrastructure. A summary is available at http://www.dcita.gov.au/Printer_Friendly/0,,0_1-2_1-3_143-4_112937-LIVE_1,00.html.

144 FIBRE was formed in October 2001 by a working party of industry participants supported by \$650,000 funding from the Department of Communications, Information Technology and the Arts. From 1 November 2001, FIBRE began operation, negotiating with telecommunications carriers to achieve the aggregation of film and television post production industry demand for more affordable bandwidth. See FIBRE, submission no. 50, p. 1.

145 Broadband Advisory Group, op. cit., p. 1.

education, commerce and government and to capture the economic and social benefits of broadband connectivity.¹⁴⁶

- 4.121 FIBRE set out the reasons broadband is essential to the growth of the creative digital industries; most important is that it enables Australian enterprises to work collaboratively to win overseas contracts and be visible on the world stage:

In order to win tenders, it is often necessary for Australian companies to collaborate in a variety of ways—sharing resources, subcontracting parts of work, etc. It is also advantageous for these companies to work together in marketing themselves overseas.¹⁴⁷

- 4.122 FIBRE provided examples of local or international collaboration requiring broadband networks:

- Sending digital files of scanned film images from laboratory to effects house
- Sending compressed rushes, edits etc to producers for approval
- Sending CGI elements of commercials to overseas agency clients for approval
- Recording “ADR” sessions while the actor is in a remote location
- Linking music recording studio with sound editing facility
- Remote collaborative digital colour grading with the director, remote from the grading facility but participating in the grade
- Linking interstate branches of post production facilities for any of the above
- High quality Video-conferencing sessions during production meetings, previews of work.¹⁴⁸

- 4.123 BAG’s inquiry acknowledged the great potential of broadband to boost economic growth and the importance of a coordinated national approach to broadband connectivity. BAG reported a co-ordinated national approach will ensure that ‘Australia has the infrastructure necessary to support innovation and productivity growth, underpinning future economic prosperity in an increasingly open and competitive global economy’.¹⁴⁹ The government of Victoria stated in a similar vein:

Securing access for post production companies to high speed bandwidth at affordable prices is essential to the growth of the post production sector, in order that the post production

146 *ibid.*

147 FIBRE, submission no. 50, p. 8.

148 FIBRE, submission no. 50, p. 8.

149 Broadband Advisory Group, *op. cit.*, p. iii.

companies can send film and television rushes, special effects etc for approval to producers offshore or interstate. Game developers and the animation industry have the same requirement for sending components of work being developed here off shore.¹⁵⁰

4.124 This view is supported by the creative industries:

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.¹⁵¹

4.125 Despite the initiatives of the Australian Government and the recommendations of the BAG, the lack of affordable broadband connections was a theme through submissions and hearings:

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.¹⁵²

4.126 FIBRE acknowledged that problems remain:

Genuine broadband connectivity within and around Australia remains underdeveloped. The issue of the cost of bandwidth across the world has always been a major barrier, but it is as difficult to get out of one's own front door as it is to cross the Pacific Ocean!¹⁵³

4.127 Studies by the National Office for the Information Economy (NOIE; now known as the Australian Government Information Management Office) appear to indicate that broadband has not spread far into the Australian community. In *The implications of the emergence of broadband distribution mediums for the production of digital content and applications*, Convergent Consulting indicated that of 12 developed countries, Australia ranked

150 Film Victoria, submission no. 85, p. 5.

151 Light Knights Productions, submission no. 48, p. 8.

152 *ibid.*

153 FIBRE, submission no. 50, p. 2.

with Italy as having the fewest broadband connections for domestic customers.¹⁵⁴ BAG reported an OECD study indicating that of every 100 inhabitants, Australia had about 1 per cent connected to broadband in 2001 while South Korea had some 17 per cent. Australia ranked 18 out of 30 OECD countries for broadband penetration.¹⁵⁵

4.128 Part of the reason for the lack of broadband penetration may be the cost:

... we need to extend past our back door and to deal with studio facilities primarily in the United States and Canada. Those bodies have amazing access to incredibly cost-effective broadband which allows a director to sit in a studio in LA while the audio engineer is sitting in New York. The New York engineer will mix the desk; the director is sitting in his LA studio. The bandwidth of data transfer that they have available to them means that it is seamless. It is prohibitively expensive for us to try and offer that service in Australia. We are competed out of the marketplace on cost ...¹⁵⁶

4.129 Information available to the Committee indicates that Australia has the highest charges for a broadband connection, as a percentage of monthly household income. Australia also has relatively high costs, per 100 kilobits of data, per month, being ranked 10th out of 19 countries.¹⁵⁷

4.130 The lack of affordable broadband and access to a broadband connection were identified clearly as barriers to the ongoing growth of many of the players in Australia's film, animation, special effects and electronic games industries. For example, the NSW Film and Television Office stated:

In the past there have been complaints about the cost of bandwidth across the Pacific for transporting rushes between Australia and west coast USA. This was seen as a major disadvantage for productions moving from North America. The cost of the international bandwidth has come down but there is still a structural problem with the cost of the "first mile" being too expensive for post production houses here.¹⁵⁸

154 Convergent Consulting, *The implications of the emergence of broadband distribution mediums for the production of digital content and applications*, December 2003, p. 14.

155 Broadband Advisory Group, *op. cit.*, p. 9.

156 Mr W. Tatters, Light Knights Productions, *Transcript of Evidence*, 24 July 2003, p. 32. Cost of broadband as inhibiting the development of the Australian creative content industry was identified also by the Screen Services Association of Victoria, submission no. 28, p. 10.

157 P. Higgs & T. Kennedy, *op. cit.*, p. 42.

158 NSW Film and Television Office, submission no. 56, p. 7. The problem of the cost of the 'first mile' was also mentioned by FIBRE, submission no. 50, p. 10.

4.131 The Committee was told that access to broadband is regarded by the creative industries as crucial, including access by regional players:

... an outcome of the inquiry must be to place a priority on a mean of providing low cost, high volume broadband between WA production companies, and not only to East Coast production centres, but beyond our borders.¹⁵⁹

4.132 Witnesses considered that broadband is out of reach because the needs of creative industries are not accommodated by the business plans of the broadband service providers. For example, FIBRE stated:

The cost of bandwidth is not the only barrier to growth. It is equally the business models or charging regimes by the telecommunications carriers that are inappropriate.¹⁶⁰

Unfortunately, the supply side of the broadband market is not as responsive to sectoral needs as it could be, largely due to a lack of competitive tension. The broadband telecommunications market is characterised by the dominance of the incumbent carrier, Telstra, and a handful of major suppliers. There is little competitive pressure to encourage these suppliers to invest in meeting the needs of a relatively small segment of their total customer base. The problems posed by a lack of competition in the broadband market are more acute in locations outside capital city CBDs.¹⁶¹

4.133 The government of Victoria stated:

Content producers, particularly in the film and television post-production sector and the game industry, often have atypical requirements for broadband (eg “bursty” requirements for transfer of large data files rather than continuous use of high bandwidth connections). These producers rely on tailored product offerings from broadband suppliers to meet their sector specific patterns of use in a cost-effective manner.¹⁶²

159 FTI WA, submission no. 2, p. 3.

160 FIBRE, submission no. 50, p. 2.

161 Film Victoria, submission no. 85, p. 5. Mr I. Robertson of AusFILM International also suggested there was ‘a lack of competition’, *Transcript of Evidence*, 4 September 2003, p. 44.

162 Film Victoria, submission no. 85, p. 5. See also FIBRE’s submission which also identified the ‘bursty’ nature of data transmission as an issue, submission no. 50, p. 10; as did the Screen Services Association of Victoria, submission no. 28, p. 10. See also Mr T. Lubin, FTI WA, *Transcript of Evidence*, 30 September 2003, p. 38 and Mr D. Case and Ms J. Tucker, FIBRE, *Transcript of Evidence*, 4 September 2003, pp. 19-20.

4.134 This was supported by the FTI WA:

Broadband services must take into account the nature of the screen production industry. Current broadband bulk-buy pricing is suited for banking, broadcasters and other large volume users, where the data volume is relatively continuous and on-going. Production companies need high-speed transmission of data only at certain times in a production cycle, but when they do, it will be intense high volume. Low cost sporadically intense broadband connectivity is essential for high performance production companies (most of which are fairly small) to be an integral part of a national agenda to grow screen production, animation, effects, and games production.¹⁶³

4.135 The AIMIA found this analysis applied to games development, special effects and post production, and this made Australia vulnerable to competition:

...With the potential for broadband to close the geographic gap, it is the pricing of broadband and bandwidth which restricts Australia's ability to compete with Canada for the highly valued North American market.¹⁶⁴

4.136 Animators face the same problem:

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.¹⁶⁵

4.137 It should be noted, however, that while there were many complaints, not all industry participants who gave evidence had experienced difficulties with access to broadband and the cost of broadband.¹⁶⁶

163 This was supported by FTI WA, submission no. 2, p. 3.

164 AIMIA, submission no. 42, pp. 9-10.

165 Light Knights Productions, submission no. 48, p. 8. This point was also made by Yoram Gross-EM.TV, submission no. 63, p. 14.

166 Ratbag stated it had no problems with broadband; Mr G. Siegele, Ratbag Services, *Transcript of Evidence*, 30 September 2003, p. 6. Animal Logic stated broadband was expensive, but that it did not 'make or break' projects; Mr Z. Nalbandian, Animal Logic, *Transcript of Evidence*, 4 September 2003, p. 6. BEEPS stated that broadband was expensive, but that the rates were coming down; Mr S. Cooper, BEEPS, *Transcript of Evidence*, 25 July 2003, p. 31. This issue may be related to firm size; the staff numbers of these firms are 50, 180 and 26 respectively.

4.138 Broadband is important also for the digital effects and film industry.¹⁶⁷ It is needed in the production sector so that developers of content can communicate with each other. It is also needed by consumers who seek access to the new products and services being developed, and so that producers can sell products directly to purchasers. However, broadband penetration into the home is low compared to other countries:

Australia lags behind other countries with availability of broadband to the home. Affordable broadband will enhance Games penetration into the Australian market.¹⁶⁸

4.139 The importance of broadband making its way into the home, especially for games developers, was reiterated by other witnesses, for example:

... broadband in games is quite strategic because the more that we get broadband delivery, the more likelihood that games producers can utilise broadband for being able to generate income through direct broadband delivery to gamers.¹⁶⁹

4.140 This was a point also made by Multimedia Victoria, when asked about developers distributing over the Internet and bypassing publishers:

You can see Korea and places like that having massively multiplayer online games over the Internet which do not need a physical distribution channel as such; they have got a cyber distribution channel. If we could actually get broadband right and the right sort of pricing across the world, you would be able to encourage those sorts of distribution channels for online gaming. I think probably the most exciting and innovative bit for gaming is Massively Multiplayer Online Games.¹⁷⁰

4.141 The Committee concludes that affordable broadband access is essential to the production and consumer sides of the creative digital industries.¹⁷¹ On the evidence, the availability of broadband to creative digital enterprises and Australian consumers is unacceptably low and this indicates signs of market failure. It is a particular problem for animation and digital post-production. It may relate to a lack of competition and also seems likely to

167 Mr D. Case and Ms J. Tucker, FIBRE, *Transcript of Evidence*, 4 September 2003, p. 16.

168 Aganomis Services, submission no. 64, p. 3.

169 Mr T. Lubin, FTI WA, *Transcript of Evidence*, 30 September 2003, p. 39.

170 Mr R. Straw, Multimedia Victoria, *Transcript of Evidence*, 28 August 2003, p. 32.

171 See, for example, Mr I Robertson, AusFILM International, *Transcript of Evidence*, 4 September 2003, p. 44 and Mr D. Case, FIBRE, *Transcript of Evidence*, 4 September 2003, p. 16. The effect of 'bundling' companies to increase demand for connections is discussed by the Gold Coast City Council, *Transcript of Evidence*, 25 July 2003, p. 8.

have been exacerbated by the proportion of SMEs in the industry.¹⁷² An audit of access (that is, connection and cost) to broadband may well indicate that intervention is required. In the longer term this issue may be a matter for consideration by the Australian Competition and Consumer Commission.

Recommendation 13

4.142 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

4.143 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.

Digital high definition television

4.144 The next development in television is said to be digital high definition television¹⁷³ but evidence indicated viewers have not adopted the new technology as quickly as anticipated.¹⁷⁴ Several reasons were advanced:

We regard the failure of digitisation to take off in 2001 as a product of a lack of content and a lack of trained people who can produce content that will then be attractive so that consumers will buy high-definition television sets, 16:9 screens and so on.¹⁷⁵

172 FIBRE noted that even if businesses increase in number, they will be small businesses and not in a good bargaining position when negotiating with big providers over bandwidth needs, submission no. 50, p. 15.

173 SPAA, submission no. 33, p. 9.

174 QCA, submission no. 17, p. 2 and SPAA, submission no. 33, p. 10.

175 Mr I. Lang, QCA, *Transcript of Evidence*, 24 July 2003, p. 3. Lack of high definition content was also identified by the Screen Services Association of Victoria as an inhibiting factor in the adoption of high definition television; see submission no. 28, p. 10.

- 4.145 One reason content may not be produced is that there are different standards for high definition television in Australia:

We have chosen a standard in Australia which is quite vague. There are three broadcasters choosing to broadcast high definition and setting different quality standards for high definition. The different networks, if you talk to them and ask them what they expect when they get a tape from a producer for high definition, will tell you different things. When we were discussing producing this season of *The Shapiers* in high definition, we spent a lot of time with the network asking which version of high definition they wanted, which of the various specifications. There are varying resolutions and each of them technically falls under the category of high definition, but they are competing standards.¹⁷⁶

- 4.146 Differing standards impose additional costs on producers, according to Light Knights Productions.¹⁷⁷ The cost of digital televisions was also cited as a deterrent,¹⁷⁸ along with consumers not being fully aware of the improvements in quality that digital high definition television offers.¹⁷⁹

- 4.147 Consumers may be unwilling to spend on a technology without established standards. The ABC supports a uniform standard:

Obviously—we think obviously—having common standards in place where content has been uniformly produced for delivery across a common standard is going to aid the development of an industry. It is basically quite a simple issue. I guess the key is getting to that point where a common standard can be agreed, accepted and then distributed.¹⁸⁰

- 4.148 The Committee believes that the government should examine the impediments to the adoption of high definition digital television and that the current range of standards is likely to present a barrier to producers of content and viewers. The Committee notes that on 10 May 2004 the Minister for Communications, Information Technology and the Arts announced that DOCITA would begin a series of digital TV regulatory reviews. These include a review of additional programming by free-to-air-broadcasters, including multichannelling; a review of matters relating to the end of the moratorium on the issue of new commercial television

176 Mr W. Tatters, Light Knights Productions, *Transcript of Evidence*, 24 July 2003, p. 23.

177 *ibid.*, p. 24.

178 Mr G. Brown, SPAA, *Transcript of Evidence*, 5 September 2003, p. 43.

179 Mr I. Lang, QCA, *Transcript of Evidence*, 24 July 2003, p. 6.

180 Ms L. Marshall, ABC, *Transcript of Evidence*, 27 August 2003, p. 9.

broadcasting licences and arrangements for converting any datacasting licences to other broadcasting types; the efficient allocation of spectrum for digital television; parts of the legislation related to under-served markets; and a review of high definition digital TV requirements and the duration of the digital simulcast period.¹⁸¹

Recommendation 15

4.149 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

4.150 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.

Education, training and skills

4.151 Apart from world standard infrastructure, Australia's film, animation, special effects and electronic games industries rely upon the capacity to train creative, skilled employees.¹⁸²

4.152 A recurring theme was that education and training do not meet the needs of the creative industries and that initiatives are required to ensure that appropriately trained practitioners are available to staff the industries.

181 The Hon. Daryl Williams AM QC MP, 'Digital TV Regulatory Reviews to Commence', *News Release*, 10 May 2004, viewed 11 May 2004 at <http://www.darylwilliamsdcita.gov.au>.

182 Mr M. Long, AFTRS, *Transcript of Evidence*, 4 September, 2003, p. 21. This view was supported for example by the ACTF, submission no. 29, p.7; see also the Pacific Film and Television Commission, submission no. 47, p. 4.

What sorts of skills and skilled people are required?

4.153 Evidence indicated that the creative industries employ people from many diverse disciplines; often disciplines regarded as central to one genre are in demand in another. As a result, what are regarded as relatively distinct industries (for example, film, animation, digital effects, electronic games) did not present to their participants an employment barrier because often the skills typically associated with one genre were used in another. For example, Mr Greg Seigle testified:

We are branching out into global titles that include action drama... For example, we use screenwriters, editors and post-production houses, animators, voice actors; a whole range of creative people from film and TV to help us make our games.¹⁸³

4.154 Mr Seigle listed some different skills used in his company:

We now have 50 people in our company. They range across a number of different disciplines. We have programmers, engineers, mathematicians, physicists and ... animators and modellers, texture artists, industrial designers, graphic designers.¹⁸⁴

4.155 This diversity of skills is reflected in a recent report produced for DOCITA as part of the Creative Industries cluster study, Stage 2:

The following list summarises the actual skills profile of a major game developer

- 30 artists
- 28 programmers
- 5 designers
- 2 producers
- 12 system developers

Game developers need people who can write lean code, and can develop titles in real time—and on time and on budget. There is a premium for project management skills.¹⁸⁵

4.156 With respect to the motion picture industry, the Australian Film Television and Radio School (AFTRS) informed the Committee: 'Visual effects work on *Star Wars* or *Lord of the Rings* entails collaboration between

183 Mr G. Siegele, Ratbag Services, *Transcript of Evidence*, 30 September 2003, p. 2.

184 *ibid.*, p. 5. Mr A. Lancman of the GDAA testified that the games development industry tapped into the skills base of other creative industries, particularly the film industry, and often outsourced work to the post production and special effects industries; *Transcript of Evidence*, 20 August 2003, p. 14.

185 Cutler and Co., *op. cit.*, p. 23.

designers, animators, practical effects specialists, cinematographers and digital artists'.¹⁸⁶ The skills needed range across the creative industry sector and into the IT sector, and include business management skills. The IT Skills Hub testified:

We see the need for the technology skills that will be needed to aid the take-up of interactive TV; we see the need for creative content skills in how it gets utilised; and we see the need for business skills in the business models that will be needed for it to really take off.¹⁸⁷

4.157 Gaps in skills and resources could cause Australia to fall short of its potential in the emerging industry of interactive television, according to IT Skills Hub:

... currently there are very few people who have capability to author interactive content or to develop new iTV applications. There is no formal education and training in the disciplines necessary for the integration of content production, software, telecommunications and applications development. A critical priority for Australia, is the development of formal education and training in this field and the support and resourcing of organisations to provide such education and training.¹⁸⁸

4.158 The NSW Film And Television Office (NSW FTO) considered a structure was required to nurture the development of interdisciplinary teams:

Success in these [creative] industries is dependent upon the ability to access and successfully combine a broad range of skills and capabilities ranging from technical, creative and business management.¹⁸⁹

4.159 The need for business skills was raised. For example, the GDAА testified that its skills and training program includes a focus on business skills and project management.¹⁹⁰ The Queensland Games Developers Cluster submitted that there was a general lack of business and project management skills and that the industry should:

- Develop business skills. There is concern about the lack of solid business skills within the development community. Developers

186 AFTRS, submission no. 18, p. 13. On pp. 13-14, the AFTRS listed no fewer than 42 skills that visual effects company Industrial Light and Magic required.

187 Mr B. Donovan, IT Skills Hub, *Transcript of Evidence*, 28 August 2003, p. 57.

188 IT Skills Hub, submission no. 44, p. 4.

189 NSW FTO, submission no. 61, p. 1.

190 Ms E. Richardson, GDAА, *Transcript of Evidence*, 20 August 2003, p. 5.

need to know what to present to investors and publishers - such as business plans, projections, marketing plans, technical plans, project plans etc—and how to create these.

- Develop project management skills. There is a growing emphasis on the importance of project management, as budgets and team sizes increase. Both project managers and producers are rarely given specific training. They are often successful programmers, designers or QA testers who are moved into project management. Training in basic tools and skills is therefore urgently needed ...¹⁹¹

4.160 The AFTRS detailed the range of skills producers and directors need, ranging from business management to OH&S, risk management and contract negotiation and management.¹⁹² QDox's analysis of the skills required in the creative industries included:

... information technology, intellectual property, design, visual and performing arts, law, ethics and historical and cultural studies.¹⁹³

4.161 In short, a wide range of skills is required in all the creative industries, and people need to be adaptable and move from one genre to another: film to animation to electronic games. The importance of adaptability and a capacity to migrate between genres is highlighted by the fact that the film, animation, special effects and electronic games industries are coalescing into a single screen content industry, not only in Australia but globally.¹⁹⁴ This is called 'convergence'. The issue that confronts Australia is whether the education and training system can produce the creative, skilled artists capable of moving through the converged creative industries.

Do we train enough and appropriately?

4.162 Many industry players felt that the current education and training arrangements are not adequate to the needs of the creative industries:

The education and training system is largely inadequate. Arguably it is in a difficult situation, with the electronic gaming business in such a constant state of growth and flux.¹⁹⁵

191 Queensland Games Developers Cluster, submission no. 78, p. 4. This was supported by the NSW FTO, submission no. 61, p.1 and RMIT University, submission no. 55, p. 9.

192 AFTRS, submission no. 18, p. 22.

193 QDox, submission no. 25, p. 6.

194 AFTRS, submission no. 18, p. 2.

195 Yoram Gross-EM.TV, regarding electronic games, submission no. 63, p. 15.

- 4.163 QPIX put it plainly: 'All producers and other industry professionals report that graduates must be retrained'.¹⁹⁶ Other evidence supported this view, for example, the Queensland Game Developers Cluster testified:

... they [educational institutions] want to provide their students with a broad range of skills, but games require a specific skill set and the graduates do not have those skills. They probably need a good six months in upskilling time. It is usually in the larger players' best interests to attract overseas talent.¹⁹⁷

- 4.164 Yoram Gross-EM.TV submitted that graduates often do not have the 'craft' /creative skills required, even if they are familiar with various technological developments in animation:

In our view there is a current lack of understanding in new graduates of basic elements of the animation craft such as perspective, colour, storytelling, human movement and writing. Current courses appear to point students in the wrong direction, focussing too much on the technological tools and neglecting the creative side.¹⁹⁸

- 4.165 The Academy of Interactive Entertainment (AIE) listed some causes and symptoms of problems:

... through inadequate length of training, inappropriate curricula and lack of expertise in course delivery. Many courses, for example, pay little heed to the generic skills of communication, teamwork and time management consistently identified as important by developers and do not expose students to the realities of game development processes and cycles.¹⁹⁹

- 4.166 The Canberra Institute of Technology (CIT) and AIE suggested a cause of the dissonance between training and employment: the existing vocational training system was not designed to deal with Australia's film, animation, special effects and electronic games industries and was not working well:

New and emerging creative industries require innovative ways to create a diverse but essential skills base that underpins growth in film, animation, special effects and electronic games industries. Neither conventional skills training as typically found in VET nor highly abstracted learning as typical in Higher Education models

196 QPIX, submission no. 23, p. 6.

197 Mr S. Deo, Queensland Games Developers Cluster, *Transcript of Evidence*, 24 July 2003, p. 18.

198 Yoram Gross-EM.TV, submission no. 63, p. 10.

199 AIE, submission no. 43, p. 6.

are entirely suitable for achieving the skill sets and other attributes required of workers in these industries.²⁰⁰

- 4.167 On the other hand, evidence suggested that current accreditation and funding of courses make it difficult for education and training providers to ensure courses meet industry's needs:

It takes time for certification if you are talking about a body like QANTM, which needs that certification so that they can offer their students Austudy and HECS type facilities. But, by the time they have got their syllabus process certified and delivered, there are three new versions of the software, which means that we cannot put the person they deliver us—who was nice and neatly certified—into the job in a lot of cases. We bring them on as a junior and spend the next three to six months—depending on the project—repurposing and retraining those people so that they are ready to go again. So there is an issue with how we work with our education cycles in this particular sector, because it is evolving. The game industry is faced with the same problem.²⁰¹

- 4.168 The Committee received evidence that education and training providers or governments do not actively consult industry players.

Being really honest, I am the largest employer in Australia and I have no interaction with any of the government institutions when it comes to training and education. Not one of them comes and knocks on my door and asks me what I want.

...I think the educational institutions need to go to industry as a whole. The industry is at fault as well, as it should be saying, "Here is what we need coming out of them." My requirements are probably different from somebody else's, but there should be some sort of general consensus that as a bare minimum they could come in and have basic skills in certain areas.²⁰²

- 4.169 The rapidly evolving nature of the technology and the difficulty that education and training institutions had in keeping up was noted by

200 CIT & AIE, submission no. 19, p. 10.

201 Mr W. Tatters, Light Knights Productions, *Transcript of Evidence*, 24 July 2003, p. 28.

202 Mr R. Walsh, Krome Studios, *Transcript of Evidence*, 24 July 2003, p. 37.

Professor Andrew Wallace of Central Queensland University²⁰³ and Light Knights Productions.²⁰⁴

- 4.170 On-the-job training was considered by many making submissions and witnesses as crucial to developing the skills base required by Australia's creative industries. The Committee was told, however, that a change in the nature of production has resulted in less on-the-job-training. The Pacific Film and Television Commission (PFTC) submitted:

In the past, the ABC, Film Australia, state government film units, Crawfords, Grundy's and national television networks were major providers of on-the-job training. Structural change, outsourcing and increasing contract based freelance employment appears to have resulted in reduced on-the-job training opportunities.²⁰⁵

- 4.171 QCA considered the scarcity of people trained to produce the content necessary to attract viewers had contributed to the failure of high definition television:

Since we have seen SBS and ABC largely abrogate their traditional responsibilities in training we really have not got a new generation of people who are equipped with high-definition skills from the training sector. We regard the failure of digitisation to take off in 2001 as a product of a lack of content and a lack of trained people who can produce content that will then be attractive so that consumers will buy high-definition television sets, 16:9 screens and so on. We think that it is not just a government problem; we think that it is a training problem in the take-up of digitisation.²⁰⁶

- 4.172 The contraction in opportunities for training with the ABC was outlined:

The ABC in the past was able to train an enormous number of people who are currently eminent in the industry. The ABC had a much bigger staff, probably about double the number it currently has. In the 1970s the ABC had a huge drama division, with between eight and 12 drama producers and about 20 drama directors on staff. We even had in-house writers. These days we have none. So the opportunities for that kind of career development, for spotting talent and giving people the chance to

203 Central Queensland University, submission no. 76, p. 3. Professor Wallace also referred to problems for regional universities in keeping in touch with metropolitan businesses and industry participants.

204 Mr W. Tatters, Light Knights Productions, *Transcript of Evidence*, 24 July 2003, p. 27.

205 PFTC, submission no. 47, p. 5.

206 Mr I. Lang, QCA, *Transcript of Evidence*, 24 July 2003, p. 3.

learn skills on-the-job, which the ABC used to do, sadly, has deteriorated over the last two decades.²⁰⁷

- 4.173 In addition to the ABC, the Committee was told, much on-the-job training had occurred in the television commercial production sector. However, when the quota requirements relating to the amount of Australian content in television commercials were changed, fewer commercials were produced, and this avenue of on-the-job training diminished:

In the past TVC [television commercial] production was one of the major training grounds for filmmakers (many of whom have gone on to international success) and enabled investment in facilities and new technologies.

The regulatory diminution of Australian content requirements in TVCs screened here has had a negative effect on our balance of trade—as well as disastrous consequences for our industry.

In order to retain and develop a skilled domestic workforce and to justify the expenditure (and constant technological upgrades) on production facilities used by the entire industry, there needs to be a continuity of quality local TVC production.²⁰⁸

- 4.174 SPAA also supported the importance of television commercial production as a training ground for Australian film makers:

The director of “Lantana”, Ray Lawrence has spent most of his career working in television commercials production between the success of that film and his first feature “Bliss” in 1985. Glendwyn Ivin, whose short film “Cracker Bag” won the Palm D’Or at the 2003 Cannes Film Festival, produced the film with no government funding while working as a television commercial director.²⁰⁹

- 4.175 Gaps in the range of skills available were also raised:

... there is a real concern amongst developers about the increasing lack of skills across the range of roles: designers, programmers, producers etc to support industry growth. The industry has a skills gap plus an urgent need to bolster the skills of graduates. The other critical issue is lack of business and project management skills amongst start-ups and new entrants to the industry.²¹⁰

207 Ms S. Levy, ABC, *Transcript of Evidence*, 27 August 2003, p. 2.

208 Mr David Muir, submission no. 39, p. 5.

209 SPAA, submission no. 33, p. 18. Mr D. Muir supported this, submission no. 39, p. 3.

210 GDAA, submission no. 54, p. 12.

4.176 This analysis was reinforced by the Queensland Games Developers Cluster:

Current training lags behind industry needs and expectations and large up-skilling costs are associated with employing recent graduates. To compound matters, there is also a lack of highly experienced local development talent due to the relative infancy of the industry.²¹¹

4.177 It seems that education and training lags behind the needs of the creative industries and a skills gap is emerging, within the ranks of content producers, and also educators and trainers.²¹² Traditional training grounds—such as the ABC and television commercials—no longer provide the education and training that is required. The established education and training regime is not identifying and addressing the issues that confront the creative industries.

4.178 CREATE Australia is the national education and training advisory body for the cultural industries. Its role is to liaise between industry, training providers and unions to ensure that training is correctly aligned to the needs of industry and students. In its National Vocational Education and Training (VET) Plan for Industry 2003-06/8, CREATE has identified a number of broad skill and knowledge shortages. Across the cultural industries generally, the shortages include:

- intellectual property;
- professional practice and the digital environment;
- updating skills for new technology, including digital; and
- working with particular communities including Indigenous, multicultural and people with a disability.²¹³

4.179 CREATE Australia also identified specific technical skill shortages in the film, television, radio and multimedia industries such as audio assistants and scriptwriters.²¹⁴ The 29 national training advisory bodies are being amalgamated into 10 industry skill councils. CREATE Australia's functions will be merged into the Business and Innovation Industry Skill Council.

211 Queensland Games Developers Cluster, submission no. 78, p. 7.

212 See, for example, Central Queensland University, submission no. 76, p. 2.

213 CREATE Australia, *National VET Plan for Industry 2003-06/8*, 2003, p. 3, viewed on 18 May 2004 at <http://www.createaust.com.au/downloads/NationalVETPlanV3Part1.doc>.

214 *ibid.*, p. 4.

Recommendation 17

4.180 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.**

On-the-job-training and apprenticeships

4.181 Practical, on-the-job training was identified as an area that should be addressed:

There is a need for better resourcing of on-the-job training such as attachments, internships, etc. Also the particular industry and business characteristics of much of the industry such as intermittent employment, high mobility, periods of high intensity followed by lulls and the contractual base for employment, needs to be recognised in the delivery of on-the-job training.²¹⁵

4.182 Fox Studios Australia also supported improved training programs:

There needs to be greater assistance in the training of new participants and technicians in the industry. This training needs to encompass public and private training initiatives. In addition, we believe Governments need to consider a coordinated, national approach to “On-The-Job training”, which may include direct incentives.²¹⁶

4.183 This was echoed by other witnesses, for example QPIX, which asked that ‘some return at least to the old apprentice-style systems be designed and trialled’.²¹⁷

4.184 The Media Entertainment and Arts Alliance (MEAA) provided an analysis of why currently the industries referred to in this inquiry did not believe they were being properly served by the New Apprenticeships Program.

²¹⁵ PFTC, submission no. 47, p. 5.

²¹⁶ Fox Studios Australia, submission no. 75, p. 5.

²¹⁷ QPIX, submission no. 23, p. 6. See also Producers and Directors Guild of Victoria, submission no. 3, pp. 5 and 6; and Gold Coast City Council, submission no. 53, p. 11.

The first issue is that most technicians are only employed on a short term basis and cannot undertake an apprenticeship for 12 months. Group training companies are intended to address this problem by allocating trainees to work with different firms as and when they are able to take them on. Conditions in the industry, however, are so difficult that the MEAA is unaware of any group training company including this industry in its portfolio.²¹⁸

- 4.185 Another issue is that Australian productions operate within tight production budgets. The cost of taking on apprentices is usually not practicable. Further, due to the general uncertainty in the industry, employers are usually not able to offer employment at the conclusion of an apprenticeship.²¹⁹
- 4.186 The MEAA also argued that the apprenticeship qualifications do not cover the breadth of skills needed in these industries. A gaffer, for example, is an electrician in charge of lighting on a set. Although many of a gaffer's roles require an electrician's licence, many other roles do not. For example, electricians are not trained to have knowledge of light qualities or setting lamps to achieve a desired effect. A person trained in cutting and manufacturing street clothing may not be able to produce period costumes or highly durable clothes for stunt performers. Most people with trade qualifications would only be able to enter the industry as assistants because their training is not industry specific.²²⁰
- 4.187 Evidence was given that some organisations were implementing their own on-the-job training programs. The South Australian Film Corporation has addressed the issue:

We put attachments on the show wherever there is a gap, and we monitor the gap. We have a list of shortages in the industry—for instance, there could be a camera focus puller, or wardrobe assistant or something—and we have identified the shortages in the local industry and we pay \$400 a week while the person is an attachment to McLeod's Daughters. It is not just McLeod's Daughters we do it for; we do it for every film that comes in. We negotiate with them to take on training so people can upgrade their skills. I am pleased to say that just about all of them are still

218 MEAA, submission no. 59, p. 17.

219 *ibid.*

220 *ibid.*

in the industry and they have been re-employed by McLeod's Daughters for proper money.²²¹

- 4.188 Some enterprises are making substantial individual efforts to link with education providers, however, they still provide substantial in-house training:

We have good interaction with universities, colleges and film schools; we have a very successful training scheme and we have been part of an apprenticeships scheme with the New South Wales Film and Television Office for three years. ... But those schools are not equipped to provide us with people at the rate that we need them. Most of our training is provided in-house, or else we have to import experienced people and then build on the experience those people bring us to train others in Australia. What we get is very good raw talent, of which we have a great abundance in Australia.²²²

- 4.189 Light Knights Productions had considered an apprenticeship program:

We have investigated this at length ... We would love a mechanism that would allow us to put someone ... on an apprenticeship scheme to take advantage of the skill learning in other areas of life that the apprenticeship scheme requires.²²³

- 4.190 A benefit of apprenticeship is that it provides diverse training:

Obviously, the nice thing about an apprenticeship program is that the syllabus is reasonably diverse. It does not just focus on the animation element; they may have to learn a bit of business practice or they may have to do a subject in accounting or something else that value-adds to what we do. At the moment, we do not have access to that.²²⁴

- 4.191 The Screen Services Association of Victoria (SSAV) also supported the creation of an internship/apprenticeship program.²²⁵ In addition, the SSAV recommended that the ABC be funded for additional internships in specialised fields, to return it to the position it once held in the industry as a training institution and a significant source for professionally trained

221 Mrs J. Crombie, South Australian Film Corporation, *Transcript of Evidence*, 30 September 2003, p. 16.

222 Mr Z. Nalbandian, Animal Logic, *Transcript of Evidence*, 4 September 2003, p. 8.

223 Mr W. Tatters, Light Knights Productions, *Transcript of Evidence*, 24 July 2003, p. 31.

224 *ibid.*

225 SSAV, submission no. 28, p. 12. See also Ms E. Richardson, GDA, *Transcript of Evidence*, 20 August 2003, p. 5.

industry practitioners. The SSAV also recommended that apprenticeship and internship opportunities be reviewed, and be especially designed for the creative content industry sector.²²⁶

- 4.192 The Committee concludes that on-the-job training and apprenticeships are crucial to the development of Australia's film, animation, special effects and electronic games industries, and to the creation of an adaptable skills base. The Committee also concludes that the current arrangements are not meeting the needs of the creative industries and that the various training programs may need to be redesigned or have added flexibility.
- 4.193 The Committee regrets the loss of on-the-job training opportunities that were available through the ABC and television commercial production. The Committee suggests that any review of on-the-job training and apprenticeship programs include the ABC and SBS. The Committee believes that avenues should be explored that would enable these iconic public institutions to engage in on-the-job training and apprenticeship programs.

Recommendation 18

- 4.194 **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.**

Accreditation of courses

- 4.195 Issues in course accreditation were drawn to the Committee's attention:

Looking across Australia, I would have to say that I have never known an area of academia where people will over claim to such an extent across educational institutions and deliver so little in the way of actual vocational training—meaningful training. Film, animation and extensions—games and so on—are expensive areas to deliver.²²⁷

226 SSAV, submission no. 28, p. 12.

227 Professor M. Bramley-Moore, QCA, *Transcript of Evidence*, 24 July 2003, p. 2.

- 4.196 Apart from the fact that courses may or may not meet acceptable quality standards, the AIMIA raised the issue of the accreditation system. Accreditation takes too long, AIMIA stated, and it often lags behind the needs of the market which change quickly, with technological advances:

Vocational Education and Training assures provision of industry-endorsed training will be delivered to an agreed standard within a rigorous qualifications framework. This industry, however, has unique requirements in that it demands regular updating to keep pace with changes in hardware, software, and the related evolution of content form.

The current accreditation regime, whilst necessary, slows down the ability for organisations to rapidly change course content and has forced teachers to become administrators.²²⁸

- 4.197 The difficulty of accreditation systems keeping pace with the needs of the creative industries and also the implications of a lack of accreditation was referred to by Light Knights Productions:

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 than 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.²²⁹

- 4.198 The process of accreditation was also raised. FTI WA had difficulties with courses offered jointly with the University of California–Los Angeles, a leading creative industries establishment in the US:

Over the course of time with UCLA we established quite a relationship with them and we have entered into an agreement with UCLA where in WA we are going to offer a graduate certificate in television production that is going to be jointly FTI and UCLA. That has presented quite a lot of problems because it does not fall into the ANTA guidelines. I know there are rules but I find myself being befuddled sometimes when somebody who is

228 AIMIA, submission no. 42, p. 10. The inadequacy of the current accreditation system was also raised by the AIE and CIT in submission no. 19, pp. 5-8 and the AIE, submission no. 43, pp. 4-5.

229 Light Knights Productions, submission no. 48, p. 9.

with the accreditation council tells me, “Who is this UCLA and are they really bona fide?”²³⁰

- 4.199 It is also clear that the lack of interaction between key players has produced graduates ill-equipped to take up positions within the creative industries and that, in some areas, skills shortages exist:

There needs to be a much higher level of dialogue between the training programs and the industry. There is a danger that the private colleges have profit more as a motive than appropriate feeding of the industry at large. It is all too easy to attract young students to the “glamour” of the entertainment business rather than basing enrolment upon the industries needs. Consequently there are many wide-eyed graduates with no appropriate job prospects.²³¹

- 4.200 As the Committee understands the VET system, it is the responsibility of all relevant parties, facilitated by CREATE Australia, to maintain communications to ensure that training is appropriate.

- 4.201 In line with this principle, evidence suggested that some education and training providers and some industry enterprises were trying to work with each other to improve the current situation, however, progress was slow. Mr Adam Lancman outlined efforts by the GDAA to engage education and training providers to ensure greater harmony with needs:

There are ongoing conversations with all the universities by all our members—in Victoria, in New South Wales, in Queensland and in South Australia—where we have relationships with the universities. The universities are very open to having our input and in trying to understand how they can better serve our requirements. So we are starting to see some movement in that area where individual units as part of broader courses are being introduced that deal with some of our issues.²³²

- 4.202 The CIT and AIE submitted that the existing mechanisms to monitor the education and training needs for creative industries were inadequate. Such mechanisms were best suited, they stated, to old economy industries, and this was something that had been identified in 1995:

230 Mr T. Lubin, FTI WA, *Transcript of Evidence*, 30 September 2003, p. 37.

231 Yoram Gross-EM.TV, submission no. 63, p. 10. Closer linkages between education and training institutions and industry were advocated by the Australian National University, submission no. 71, pp. 5-6.

232 Mr A. Lancman, GDAA, *Transcript of Evidence*, 20 August 2003, pp. 4-5.

One of the continuing pressing issues evident in the 1995 report [National Multimedia Education and Training Strategy] and continuing today is the provision of appropriate opportunities for skills development for emerging occupations in sunrise industries. In particular this relates to the need for the rapid evolution of responsive curriculum. While VET has a well-established set of protocols surrounding training package identification, development and implementation, these are best suited to established occupations in Industries where change is not fundamentally affecting new business opportunities.²³³

4.203 The CIT and AIE identified critical impediments that prevent VET providers responding appropriately to emerging training needs for occupations within sunrise industries, including:

- Inability of a National VET agenda to provide clear evidence of significant emerging national industry trends, particularly in industries that are part of the new economy and have not established conventional employment, representative, and lobbying structures.
- Identifying training priorities in advance of established national consultative processes and training package development
- Ensuring the emerging training issues being identified are responding appropriately to national priorities as well as local needs.
- Recognising that the existing VET training paradigm for commonly agreed learning outcomes is difficult to accommodate in areas where complex interactive capabilities are required by practitioners in newly evolving specialisations typical of film, animation, special effects and electronic games industries.²³⁴

4.204 A number of submissions suggested that a national accreditation system be developed for the games industry,²³⁵ as well as animation,²³⁶ and film, animation, special effects and electronic games industries in general.²³⁷

National Leadership is required here to provide educators and trainers with a framework to quickly endorse and quality assure new training to meet increasingly diverse needs.²³⁸

233 CIT & AIE, submission no. 19, p. 5.

234 *ibid.*

235 Queensland Game Developers Cluster, submission no. 78, p. 8.

236 Light Knights Productions, submission no. 48, p. 9.

237 CIT & AIE, submission no. 19, p. 2.

238 AIE, submission no. 43, p. 6.

- 4.205 Many of these issues have been recognised and discussed in the wider VET literature. CREATE Australia has listed the responsiveness of VET and the need to identify emerging sectors as priorities.²³⁹ The House of Representatives Standing Committee on Education and Training, in its report on VET in schools, also noted these difficulties and recommended that the Australian National Training Authority (ANTA) receive additional funds to better serve new and emerging industries.²⁴⁰ Many of the industries examined in this inquiry are SMEs and, therefore, are limited in the amount of resources that they can contribute to VET. Most firms in emerging industries generally would also be SMEs. The Committee, therefore, supports this recommendation in relation to the industries examined in this inquiry.
- 4.206 In a related development, ANTA has been conducting a high level review of training packages. These packages are the standard framework within which training providers deliver courses that are uniformly recognised across Australia.
- 4.207 The high level review has recognised that fast-changing industries may need speedier development and review cycles. It has also recognised some of the other issues raised in this inquiry such as how to obtain the best balance of technical, cognitive and behavioural skills and how to incorporate generic skills such as those relating to communication or business.²⁴¹
- 4.208 The high level review is nearing conclusion. The National Training Quality Council is developing recommendations for the ANTA Board. At the time of preparing this report, the meeting of the ANTA Ministerial Council in June 2004 is the next milestone, whereupon the final review report may be publicly released.²⁴²
- 4.209 VET is meant to promote and assist the joint interests of businesses and students. The evidence presented to this inquiry, however, suggests that VET is not maximising the opportunities for businesses, apprentices and trainees, who are competing in a tough global market.

239 CREATE Australia, *op. cit.*, pp. 5-7.

240 House of Representatives Standing Committee on Education and Training, *Learning to Work*, March 2004, Canberra, pp. 194-201.

241 ANTA, *High Level Review of Training Packages, Phase 3, Consultation Paper*, December 2003, p. 7, viewed at http://www.anta.gov.au/images/publications/consult_paper.pdf on 18 May 2004.

242 ANTA, *Fast Facts*, no. 187, 27 April 2004, viewed on 18 May 2004 at http://www.anta.gov.au/images/publications/Fast_Facts_187.pdf.

Recommendation 19

- 4.210 **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

- 4.211 **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.**

National skills council

- 4.212 Another current development in VET is the consolidation of the 29 industry training advisory bodies (such as CREATE Australia) into ten industry skills councils. To date, the ANTA Board has agreed to declare five councils. CREATE Australia is expected to be merged into the Business and Innovation Industry Skill Council. This Council will also include the business, finance, education, information technology and telecommunications sectors.²⁴³
- 4.213 The expected benefits of the consolidation include:
- greater cross-industry cooperation;
 - addressing skill shortages before they become a problem; and
 - more flexible skill mixes.
- 4.214 This chapter and Chapter 6 discuss the need for a better mix of skills in these industries, including business skills. From ANTA's comments, including the creative industries in the Business and Innovation Industry Skills Council may address the Committee's concerns. Further, it may assist the industries to better manage the trend to greater digitisation of creative work.

243 ANTA, *New composition for national industry advisory arrangements*, 26 May 2003, updated 2 May 2004, viewed at <http://www.anta.gov.au/news.asp?ID=221> on 18 May 2004. The council's name is subject to variation.

4.215 The industries themselves suggested a national skills council for the creative industries. This was suggested by the GDAA,²⁴⁴ the CIT and AIE,²⁴⁵ as well as the IT Skills Hub:

... a viable iTV industry will only be possible if underpinned by a suitable education and training framework—that is, one that integrates technology, business and creative skills. ... we think this framework is best achieved through a collaborative approach between government, business and the education sector, forming a focused body of some sort or a centre of excellence, as you could call it, bringing together technology, business, content creation and education and training.²⁴⁶

4.216 The proposed national skills council appears to have largely the same functions as the current advisory arrangements, namely CREATE Australia and the foreshadowed Business and Innovation Industry Skill Council. The Committee is reluctant to recommend duplicating current mechanisms.

4.217 The industry's suggestion, however, clearly reinforces the industry's concerns about the effectiveness of current arrangements. Not only is it difficult to 'pin down' new, quickly developing industries, but most of the firms in the industries examined in this inquiry are SMEs. Therefore, they tend to have limited resources to devote to general matters such as training needs. The games industry, through its relatively new industry group the GDAA,²⁴⁷ appears to have commenced this task but the process has been much slower than what an industry working in a high growth market might expect or need.

4.218 The Committee, therefore, would like to reiterate its earlier support for the recommendation of the Standing Committee on Education and Training. Cutting edge, rapidly growing industries such as those examined in this inquiry are entitled to extra support from bodies such as ANTA and the Committee supports further funding for ANTA for this purpose.

244 GDAA, submission no. 54, p. 19.

245 CIT & AIE, submission no. 19, p. 7.

246 Mr C. Dougall, IT Skills Hub, *Transcript of Evidence*, 28 August 2003, p. 59.

247 The GDAA was formed in December 1999. See <http://www.gdaa.asn.au/about/index.html>, viewed on 20 May 2004. The GDAA appointed its first dedicated staff member in late 2002; Ms E. Richardson, GDAA, *Transcript of Evidence*, 20 August 2003, p. 2.

A network of national institutions

- 4.219 At present, the only creative industries training organisation that receives direct federal support is the Australian Film Television and Radio School. The Committee inspected other educational and training institutions that fall under state government legislation: the Victorian College of the Arts, the Queensland College of Art, and the Canberra Institute of Technology. As well, there is the Film and Television Institute of Western Australia.
- 4.220 These institutions produce excellent creative results by any measure. The graduates from the Victorian College of the Arts, Queensland College of Art and the Australian Film Television and Radio School, in particular, have taken leading creative roles industries.
- 4.221 The institutions indicated there were issues of keeping abreast of current technology and being able to offer the best training and latest equipment. Moreover, Australians who do not live on the eastern seaboard may not enjoy the ready access to education and training institutions enjoyed by students living in Sydney, Melbourne and Brisbane.
- 4.222 There is a case to be made, the Committee believes, to reassess the Australian Government's relationship with these institutions. The role of the Australian Government may be to draw the institutions together into a national network, thereby providing for better co-ordination of courses and complementary training opportunities.

Recommendation 21

- 4.223 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.

Technological and artistic convergence

Introduction

- 5.1 This chapter will report on item (f) in the terms of reference:
- the effectiveness of the existing linkages between these industries and the wider cultural and information technology sectors.
- 5.2 Links between the industries featured in the inquiry are not new. For example, the film *Mary Poppins* (1964) featured stop-motion animation. The film *Bedknobs and Broomsticks* (1971) used traditional cartoon animation. Special effects have been used in film since *King Kong* (1933).
- 5.3 However, there are new dimensions to convergence in these industries. Firstly, it has soon become apparent that just as films are often sourced from books, so can electronic games be sourced from films. It is now 'commonplace' to spin off games from films. Further, films can be spun off from games, examples being *Tomb Raider* and *Mortal Kombat*. Finally, some films and games are simultaneously developed, two examples being *Matrix* and *Lord of the Rings*. In these cases, simultaneous development allowed the producers to ensure the consistency of characters, storyline, and look and feel of the respective games and films.¹
- 5.4 The benefit of these game/film spin-offs is the one piece of intellectual property can be exploited many times over. In one case, the Committee heard that some games may ultimately generate more revenue than the film from which they are derived.²

¹ Austrade, submission no. 37, p. 14.

² Mr I. Robertson, AusFILM International, *Transcript of Evidence*, 4 September 2003, p. 52.

- 5.5 Further, the technology is converging, with more and more forms of audio-visual expression being converted from analogue into digital format. Music came first, with the Fairlight sampler and compact disc. Soon after followed special effects, then animation with productions such as the locally produced *The Shapiers*. Television has recently followed suit. During this inquiry, the Committee heard how digital cinema will eventually replace 35 mm film.³ In the digital sense, these industries are catching up to electronic games, which predated them all with *Pong* and *Space Invaders*.
- 5.6 The benefit here is the one image or piece of sound can be used many times over in different applications. Hence, companies can obtain significant efficiencies by using the same basic material in different applications.
- 5.7 Finally, games are adopting other industries' techniques to improve their products, such as motion capture to improve their animation. A popular game, *Grand Theft Auto: Vice City*, used Hollywood actors such as Ray Liotta, Dennis Hopper, Burt Reynolds and others.⁴ The Australian actor, Bud Tingwell, worked on the game *Jurassic Park: Operation Genesis*.⁵
- 5.8 The Committee found, however, that despite these expectations, links in Australia are less developed than in the international examples given above. Links do exist, but they might best be described as embryonic. At this stage, it appears the games industry sees more benefit in the links and has itself initiated seminars to further encourage them. In this and the following chapter, the Committee makes some recommendations as to how these initial links can be better developed.

Current links

Progress to date

- 5.9 The general tenor of the evidence the Committee received was that the film, animation and special effects industries were linked to some extent, but that games were regarded as largely separate. The mechanics of these links were neatly summarised by Cutting Edge Post:

There are existing linkages between all of the areas above but more realistically the games industry is considered almost a separate

3 Media Entertainment Systems Architects, submission no. 30, p. 1.

4 Austrade, submission no. 37, p. 14.

5 Film Victoria, submission no. 85, p. 13.

industry to the rest. However often individual artists and technicians can make the transition from one area to the other.

Film, animation and special effects can all be part of the same production and hence work closely together. At Cutting Edge Post we have artists who work some weeks on special effects and other weeks on animation.⁶

- 5.10 This transferability of staff in the sector is consistent with evidence the Committee received from the Screen Tasmania Advisory Board. Between 2000 and 2003, the Tasmanian industry's turnover grew from \$26,000 to \$5 million. The Tasmanian industry was able to enjoy this rapid growth by taking in people with related skills. Stills photographers started shooting movies and advertisement copywriters started developing feature film scripts.⁷
- 5.11 The Committee received evidence from a number of sources that the electronic games industry is looking to the film, animation and special effects industries for expertise and input. For example, one South Australian firm stated:
- We currently have 50 staff, and we are now hiring more people. We are branching out into global titles that include action drama and involve a lot more story as well, so we are beginning to use a lot of people from the film industry in our development. In fact, we have become dependent, to some extent, on skills in the film industry. For example, we use screenwriters, editors and post-production houses, animators, voice actors; a whole range of creative people from film and TV to help us make our games. The games are focusing much more on story.⁸
- 5.12 The firm also noted that outsourcing animation and modelling work allowed it to minimise its risk.⁹
- 5.13 This developing link between the game industry and the other industries examined in this inquiry was confirmed by a number of organisations, including Austrade¹⁰ and Film Victoria.¹¹
- 5.14 In its submission, the Game Developers' Association of Australia (GDAA) noted the importance of these links. It has hosted a number of events to

6 Cutting Edge Post, submission no. 20, p. 4.

7 Ms M. Reynolds, Screen Tasmania Advisory Board, *Transcript of Evidence*, 30 September 2003, pp. 20-21.

8 Mr G. Siegele, Ratbag Services, *Transcript of Evidence*, 30 September 2003, p. 2.

9 *ibid.*, p. 6.

10 Austrade, submission no. 37, p. 10.

11 Film Victoria, submission no. 85, p. 10.

promote them in association with Melbourne City Council, Multimedia Victoria, the Information Industries Bureau, Brisbane City Council and others.¹² The reverse level of interest from the film and other sectors in the game industry will be discussed below.

- 5.15 The ABC has also sought to encourage these links. In conjunction with Film Victoria, it launched *Game On*, a grant program to encourage film makers, animators and game designers to develop online games. The ABC made five grants of \$25,000 to develop a narrative game. One game, *Kelman to the Rescue*, won three international awards. One of the games was under negotiation for development as an animated series.¹³
- 5.16 The Committee also received some evidence on the industries' links with the wider economy. For example, the Queensland industry, largely centred on the Gold Coast, has links to the local leisure industry.¹⁴
- 5.17 The arts sector is also developing links. Artists use game technology to develop interactive displays.¹⁵ The new Adelaide Film Festival has a broad focus on digital production. The Australian Network for Art and Technology is based in South Australia and fosters innovation 'at the creative end of new media.'¹⁶

Room for improvement

- 5.18 As previously discussed, one of the key findings in relation to links was that, despite the games industry looking to learn from the film, animation and special effects industries, it is still largely regarded as separate. For example, a significant number of the submissions from established organisations in the film industry did not refer to the games industry.¹⁷
- 5.19 In its submission, Austrade noted that the film industry is in a more advanced stage of development, which means the games industry would perceive greater opportunities from this convergence.¹⁸

12 GDAA, submission no. 54, p. 13.

13 ABC, submission no. 22, p. 6.

14 Gold Coast City Council, submission no. 53, p. 6.

15 Australia Council, submission no. 84, p. 2.

16 Government of South Australia, submission no. 94.1, pp. 3 & 7.

17 Examples are the Pacific Film and Television Commission (submission no. 47); NSW Film and Television Office (submission no. 56); Australian Film Commission (submission no. 58); Media Entertainment and Arts Alliance (submission no. 59); Film Finance Corporation (submission no. 70); Australian Screen Directors Association and Australian Writers' Guild (submission no. 74); Film Australia (submission no. 82); and AusFILM (submission no. 88).

18 Austrade, submission no. 37, p. 14.

- 5.20 One factor that would make it more difficult for the games industry to develop links with its more traditional counterparts is that the industries are concentrated in different states. Electronic games firms are concentrated in Victoria and Queensland.¹⁹ The film industry, however, is concentrated in Sydney.²⁰
- 5.21 The stage two report of the creative industries cluster study noted that a similar phenomenon had occurred in other countries. Noted game development centres include Lyon, but not Paris, and Manchester, but not London. Some industry players suggested that film centres (such as Sydney) absorb all the talent. The study, however, did not wish to express an opinion on this state of affairs. Instead, it preferred to note the possibility that these centres may be an exercise in regional branding.²¹
- 5.22 The Committee would like to note that some film organisations did appreciate the value of the links with the games industry. Film Victoria's submission discussed the games industry.²² When the matter was raised in evidence, the Film Finance Corporation Australia (FFC)²³ and AusFILM²⁴ recognised they could have a role to play in assisting the electronic games industry.
- 5.23 The Committee also received evidence of a lack of understanding between the technology and artistic sectors.²⁵ These two groups are generally involved in seeking to address the same particular problem, but from greatly different perspectives. The Committee received evidence from QPIX about the potential uses of imaging technology in a whole range of industries outside the entertainment sector:

These industries include defence, mining, medicine (in particular genetic technologies), aerospace, architecture, engineering and many others. At this time, the use of these technologies by the industries above is limited largely to the formulaic opportunities provided for by the software itself. The insertion of originating filmmakers into this process would enhance the quality of the resulting virtual and simulated work, but also the narrative substance of them, this significantly increasing their effectiveness

19 *ibid.*, p. 21.

20 Mr G. Brennan, NSW Film and Television Office, *Transcript of Evidence*, 4 September 2003, p. 32.

21 Cutler & Company *Producing Digital Content*, September 2002, pp. 24-25, viewed at http://www2.dcita.gov.au/ie/environment/drivers/creative_industries on 20 April 2004.

22 Film Victoria, submission no. 85, p. 16.

23 Mr B. Rosen, FFC, *Transcript of Evidence*, 5 November 2003, p. 11.

24 Mr I. Robertson, AusFILM International, *Transcript of Evidence*, 4 September 2003, p. 51.

25 Yoram Gross-E.M.TV, submission no. 63, p. 8.

in predictive, modelling, training, and other industrial environments. It would also open up those industries for employment and contract opportunities for screen practitioners.²⁶

5.24 Austrade noted this process had commenced but also added a sense of urgency:

The X/media/lab project is one that is seeking to break down these barriers. There are some opportunities for artists and technical people to work together but there could be more. Cost advantages will not continue to win Australia the business – we need to be at the leading edge with content and creativity. Integration between technology specialists, universities, workshops/laboratories and creative artists is essential.²⁷

5.25 Just as industrial design can make home products more attractive and functional, film makers and other practitioners from this sector can make their mark on technological products.

5.26 Both the technology and the creative sectors stand to gain from such an approach. Technology firms would develop more user-friendly and effective products. Creative people would gain more employment options, many of which might be more stable than the traditional outlets for their skills.

5.27 The Australian Government has recently commenced supporting this approach by funding the Cooperative Research Centre for Interaction Design. This Centre is further discussed in Chapter 6, but is essentially a research and development facility that aims to enhance technological products through a creative perspective.

5.28 The Committee is of the view that the Government can build on this promising start and further investigate how it might be able to help the technology sector leverage the skills of our creative people.

Recommendation 22

5.29 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.

26 QPIX, submission no. 23, p. 7.

27 Austrade, submission no. 37, p. 7.

Effectiveness of the links

Spin-offs

- 5.30 The previous discussion noted that the games industry has been drawing off the film, animation and special effects industries in relation to skills and expertise. In this sense, the links are starting to be effective.
- 5.31 Overseas practice, however, has shown that these links can deliver much more, such as games or films being spun off from each other. To date, the Committee is not aware of any Australian spin-offs, although it is aware of a lost opportunity:

Ratbag was approached by a Sydney producer to make a game based on a film that is about to enter pre-production. The concept is perfect for the games medium. The budget for the film is \$30M and will feature at least one major star, giving it global appeal. The producer's financier wanted to raise the additional finance for development of the game from their investors but then withdrew when we told them that games are not eligible under [Division 10BA of the *Income Tax Assessment Act 1936*].

The film and the game would have been released simultaneously creating two substantial benefits:

- two revenue streams for the property; and
- the film and the game cross promoting each other.²⁸

- 5.32 As the Allen Consulting Group stated, these spin-offs provide a much greater return for the investment in the intellectual property. In evidence, the Committee heard that one of the Matrix films earned \$US77 million in its opening week, but at the same time the publishers shipped \$US80 million of game sales.²⁹

- 5.33 This issue was neatly summarised by the GDAA:

In the US, the relationship between the various entertainment sectors, particularly film and games, is much stronger and the industry is driven by "franchise" product, ie film, game, merchandising, music CD, books, comics etc all packaged together. In Australia, there is currently limited "franchise" property potential plus there is a need for the sectors to better

28 The Allen Consulting Group, *Game Industry Development Strategy*, 8 October 2003, p. 25.

29 Mr R. Walsh, Krome Studios, *Transcript of Evidence*, 24 July 2003, p. 40.

understand the respective business models and synergies between them.³⁰

- 5.34 The Committee considers these comments are consistent with the evidence put before it in this inquiry.
- 5.35 Another factor to consider is the profitability of electronic games. As discussed in Chapter 4, games are generally a better commercial prospect than films because it is easier to modify them while they are being developed and, at this stage of the industry's development, sequels are often better than the original.
- 5.36 The local film industry, however, has not always been producing the type of intellectual property that easily transfers to a game. In evidence, the FFC noted that film budgets in Australia have tended to be low (no more than \$10 million to \$12 million), which means that action films are difficult to make. Action films, however, translate easily across to the game format.³¹
- 5.37 These issues and the Committee's recommendations are further discussed in Chapter 6.

Industry structure

- 5.38 As noted in Chapter 2, the industries examined in this inquiry are largely small and medium enterprises (SMEs). Of the number of firms in the sector, 90.5 per cent have less than 10 staff.³² This industry structure has a number of consequences, which are discussed throughout this report. One of those consequences is that, because the firms are generally small, they are less likely to be multi-disciplinary and more likely to cover just one field. The former National Office for the Information Economy made this point in evidence:

One of the major problems in the sector in Australia is the issue of scale. It is exacerbated by significant fragmentation within the sector. Exacerbating that is the persistence of some old industry silo thinking around film being different from games being different from animation and so on. One of the things that has emerged from the research over the last two years has been that we are seeing, because of digital technology, a convergence in production practice across all of those sectors. So in fact there is an opportunity here for the industry and the sector as a whole to

30 GDAA, submission no. 54, p. 14.

31 Mr B. Rosen, FFC, *Transcript of Evidence*, 5 November 2003, pp. 2 & 11.

32 FIBRE, submission no. 50, p. 3.

develop a much more collaborative and consolidated approach to its own development in this country. I do not think we are at that stage yet.

I still think there are some legacy mindsets about “I am in film” or “I am in games” in a lot of cases that are holding back collaboration that could be very profitably pursued. In fact, the sector has not yet figured out how to use that commonality of technology and production practice to get some real critical mass and some synergies going within the sector. If they successfully achieve that, they could achieve great things. But if they fail to achieve that, of course a lot of the problems they are facing now will persist.³³

- 5.39 One of the points from this evidence is that, as long as the industries examined in this inquiry continue to exist as SMEs, the chances of developing links across the sector are reduced. The structure of an industry is largely up to its constituents and generally follows their perceptions of the most profitable course of action.

Conclusions

- 5.40 The commercial realities of games and films are quite different and, therefore, there are likely to be limits to convergence. As *The Economist* noted:

...the main trend will continue to be to make games from films, not vice versa. Indeed...publishers are starting to think twice about selling the rights to their games, since a bad film adaptation – over which the game publisher has little control – can tarnish a lucrative game franchise. There could turn out to be limits to the cosiness between the two industries after all.³⁴

- 5.41 As this chapter has noted, however, the links in the Australian sector are behind international practice and these links, in the view of the Committee, should be expanded. The Committee received a suggestion from the ABC for a cross-platform fund.³⁵ Some possibilities for using existing programs to promote links within the sector are discussed in Chapter 6.

33 Mr D. Kennedy, National Office for the Information Economy, *Transcript of Evidence*, 15 October 2003, p. 7; (NOIE has been replaced by the Australian Government Information Management Office).

34 *The Economist*, ‘Gaming goes to Hollywood’, 27 March 2004, p. 64.

35 Ms L. Marshall, ABC, *Transcript of Evidence*, 27 August 2003, p. 14.

- 5.42 One cost-effective action that the Government could consider would be to build on the seminars run by the GDAA. The effectiveness of such seminars often relies on suitable promotion and the attendance of senior and reputable personnel. These are issues that Government agencies may be able to address.

Recommendation 23

- 5.43 **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.**

General policy considerations

Introduction

- 6.1 This chapter will report on the final two items in the terms of reference:
- how Australia's capabilities in these industries, including in education and training, can be best leveraged to maximise export and investment opportunities;¹ and
 - 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.²
- 6.2 The main conclusion from the Committee in this chapter is a recommendation for the Government to adopt an intellectual property strategy.
- 6.3 The evidence in this inquiry has demonstrated to the Committee that our educational institutions produce talented people who can work at the highest level. In the terms of the four requirements developed by the 1927 Royal Commission, however, the Committee has noted a number of shortfalls.
- The film, animation and special effects industries have often been limited by low budgets (capital), which has hampered content development. Further, assistance is typically aimed at production, rather than distribution.

1 Term of reference (h).

2 Term of reference (g).

- The games industry has regularly traded its intellectual property for development funding (capital).

6.4 In order to place the Committee's later comments in context, below is a discussion of current exports and investment and a listing of current support arrangements for the industries. Although this information revisits some facts raised earlier in the report, the purpose is to gather the relevant material for this chapter in one place.

Current exports

- 6.5 The games industry is very much focussed on exports. In 2002 it had a turnover of \$110 million, of which \$100 million was attributed to exports.³
- 6.6 The film industry also demonstrated a significant level of exports. In 2000-01, the total value of film production comprised \$861 million, of which \$608 million was spent in Australia. The \$861 million comprised:
- \$319 million in local productions;
 - \$192 million in co-productions; and
 - \$350 million in foreign productions.⁴
- 6.7 Austrade reported that an apparent trend of Australia exporting less finished film products and instead becoming a location and post-production site for US films.⁵ Of the total pool of 'footloose' US production, Australia and the UK have each secured 6 per cent. The main destination for this work is Canada, which has 80 per cent of the market.⁶
- 6.8 Different sectors within the film industry have a differing export focus. For example, the industry on the Gold Coast is almost entirely based on exports.⁷ By implication, the other main areas of the film industry, Melbourne and Sydney, are more focussed on local production.
- 6.9 These export figures, however, are production related. In relation to film distribution, most revenue on local films is earned from overseas. For example, the Film Finance Corporation (FFC) received 79 per cent of its total recoupment from overseas.

3 Queensland Minister for Innovation and Information Economy, submission no. 36, p. 4.

4 Austrade, submission no. 37, p. 6.

5 *ibid.*, p 5.

6 Cutting Edge Post, submission no. 20, p. 4.

7 Gold Coast City Council, submission no. 53, p. 13.

- 6.10 In terms of intellectual property generally, Australia is very much a net importer. In 1995-96, royalty payments overseas were four times international royalty receipts. In 1994-95, imports of cultural goods were five times the exports.⁸

Current investment

- 6.11 At the time of preparing this report, the most recent figures from the Australian Bureau of Statistics (ABS) for the film industry were for 1999-2000. In that year, the spend on television productions was \$1.3 billion, the spend on commercials was \$243 million, feature films were \$148.6 million and other productions \$84.8 million. The breakdown on the sources of funds for feature films included 20 per cent from the FFC, 13.4 per cent from the private sector in Australia, and 64 per cent from the private sector overseas.⁹
- 6.12 The ABS does not provide a similar analysis for the electronic games industry.¹⁰ However, from the evidence available to the Committee, it appears that the bulk of investment comes in the form of development funding from overseas publishers.¹¹
- 6.13 Investment has flow-on benefits to other parts of the economy. Thirty-seven full time jobs are created for each \$1 million in investment.¹²
- 6.14 With the continuing globalisation of the economy, however, investment funds are becoming more mobile. A considerable amount of Australian equity is going offshore in search of productions that focus on the international market.¹³ The post production of many films made in Australia is being taken back to the US.¹⁴
- 6.15 Not all investment can be put to productive use. The Committee heard that over \$110 million has been invested in new digital production technologies to take advantage of the move to high definition digital television. As noted in Chapter 4, however, the take-up rate of digital television in the community has been slower than expected.¹⁵

8 CREATE Australia, submission no. 46, pp. 2-3.

9 Australian Bureau of Statistics *Film and Video Production and Distribution 1999-2000*, (2001) Catalogue no. 8679.0

10 Film Victoria, submission no. 85, p. 19.

11 The Allen Consulting Group, *Game Industry Development Strategy*, 8 October 2003, p. 17.

12 SBS, submission no. 66, p. 6.

13 Ambience Entertainment et al, submission no. 100, p. 19.

14 Australian National University, submission no. 71, p. 5.

15 Screen Producers Association of Australia, submission no. 33, p. 10.

- 6.16 Similarly, there has been significant investment recently in Australian studios on the east coast. During this inquiry, Serenity Cove in Sydney and Melbourne Docklands were under development.¹⁶ However, the Committee received evidence that there was considerable vacant studio space during the inquiry.¹⁷
- 6.17 As noted in Chapter 4, some industries, such as animation and digital effects, need to continually update their equipment and software.¹⁸

Current government assistance

Taxation measures

- 6.18 A key taxation measure for film is Division 10BA of Part III of the *Income Tax Assessment Act 1936*. Section 124ZAF provides an immediate 100 per cent deduction for money invested in qualifying Australian feature films. The expenditure does not have to be matched to later periods where the income might be earned. To qualify for this deduction, the Minister must certify the film as having significant Australian content. The relevant criteria are listed in section 124ZAD and include the film's subject matter, the place of production, the nationalities and places of residence of key parties, and the sources of finance.
- 6.19 Another tax measure is Division 10B of Part III of the *Income Tax Assessment Act 1936*, which applies to films wholly or substantially made in Australia. This Division allows investors to write off their investment over two years, commencing with the year when the production first started to earn income. Projects that use this Division may not apply for funding from the FFC, although the range of eligible projects is wider than under Division 10BA.¹⁹
- 6.20 Another tax approach has been the Film Licensed Investment Company (FLIC) Scheme, which was established under Division 375 of the *Income Tax Assessment Act 1997* and the *Film Licensed Investment Company Act 1998*. The legislation enabled the Minister to issue up to \$40 million in concessional capital licences to companies. Shareholders who purchased this concessional capital would obtain an immediate 100 per cent

16 Australian Children's Television Foundation, submission no. 29, p. 6.

17 Mrs J. Crombie, South Australian Film Corporation, *Transcript of Evidence*, 30 September 2003, p. 15.

18 Light Knights Productions, submission no. 48, p. 6.

19 Australian Film Commission, *Filming in Australia, Federal Tax Incentives for Film Investment*, http://www.afc.gov.au/filminginaustralia/taxfins/federal/fiapage_56.aspx viewed on 22 April 2004.

deduction if that money was invested in qualifying Australian films. The Scheme, therefore, worked in a similar way to Division 10BA, except that it also allowed investors to diversify their risk.

- 6.21 Two companies, Content Capital Ltd and Macquarie Film Corporation Ltd, received licences. The FLIC Scheme was a pilot and the concession period ended on 30 June 2000.²⁰
- 6.22 A more recent measure is the 12.5 per cent refundable tax offset for film production in Australia, which commenced in September 2001. A film will automatically qualify if it spends more than \$50 million in Australia. If the spend is between \$15 million and \$50 million, then 70 per cent of the total production expenditure must be in Australia.
- 6.23 The tax offset works through calculating 12.5 per cent of the production spend in Australia. The film production company can then reduce its tax bill by this amount. If the offset is higher than the tax bill, then the company receives the remainder as a refund.
- 6.24 The refundable tax offset is available for feature films, telemovies and mini-series, and was extended during the course of this inquiry to high budget television series. Taxpayers may not use any other tax relief or FFC funding in addition to the offset. The legislation implementing the offset is contained in Division 376 of the *Income Tax Assessment Act 1997*.²¹
- 6.25 No comparable arrangements exist for the games industry.

Content regulation

- 6.26 This area of industry support applies principally to television broadcasting. Under section 122 of the *Broadcasting Services Act 1992*, the Australian Broadcasting Authority (ABA) must determine standards to be followed by commercial television licensees. The standards have the status of subordinate legislation. Either House of Parliament may amend a standard under section 128. There is the general *Broadcasting Services (Australian Content) Standard 1999* and also specific standards on advertising and drama on pay television.
- 6.27 Clause 10 of the main standard currently requires licensees to broadcast, during prime time, at least 830 points of Australian drama over a three year period. No less than 250 points can be screened during a year. A

20 *ibid.*

21 Department of Communications, Information Technology and the Arts, *Fact Sheet, Refundable Tax Offset for Film Production in Australia*, viewed on 22 April 2004 at http://www.dcita.gov.au/download/0,2118,4_105255,00.pdf.

program's point score is its duration in hours multiplied by the format factor. To take an example, a feature film that had a licence fee of at least \$150,000 would have a format factor of four. If the film lasts 90 minutes then the licensee would be awarded six content points.

- 6.28 Clause 12 of the standard governs children's programs. Licensees must broadcast at least 96 hours of first release children's drama over a three year period, and at least 25 hours in any year. A feature film at least 80 minutes in length is taken to be three times its actual duration.
- 6.29 Advertising is governed by the Television Program Standard for Australian Content in Advertising (TPS 23), which was one of the Australian Broadcasting Standards carried over by the ABA in 1992. A licensee must ensure that, between 6 am and midnight, 80 per cent of the total advertising time comprises Australian advertisements.²²
- 6.30 The Australian drama content requirements on pay television are governed by sections 103A-103ZJ of the *Broadcasting Services Act 1992*, which were inserted in 1999. The basic requirement is that a holder of a subscription television licence, who provides a drama channel, must spend at least 10 per cent of all program expenditure for that channel on new Australian drama. As required by the Act, this requirement is under review.
- 6.31 No comparable arrangements exist for the games industry.

Support programs

Film, animation and special effects industries

- 6.32 As indicated in the prior section on investment, the film industry receives significant support from government agencies. Figures collected by the Australian Film Commission (AFC) demonstrate this role. In 2001-02, expenditure on Australian features in Australia included 42 per cent of government sourced funding. For the five years up to this period, this figure has stayed within the range of 42-52 per cent. Over the same period, expenditure on Australian television drama included 24 per cent government funding.²³
- 6.33 A number of agencies provide these funds. The FFC takes an investor role in Australian films and recoups a percentage of this money to reinvest in further production. In 2002-03, the Corporation recouped \$15.4 million

22 Australian Broadcasting Authority, *Content regulation, Advertising*, viewed on 21 April 2004 at <http://www.aba.gov.au/tv/content/advertising/index.htm>.

23 Screen Services Association of Victoria, submission no. 28, p. 4.

- and its investment (listed as provision for loss on film investments) was \$56.3 million.²⁴
- 6.34 The AFC is the Australian Government's film development agency. In 2002-03, it issued \$3.3 million in grants and its investment (listed as write-down of assets) was \$7.2 million.²⁵
- 6.35 Australia's public broadcasters also drive much of this production. SBS operates a commissioning division, SBSi, which sources programs from the independent sector. Its budget is now \$8.6 million annually.²⁶ The ABC's drama budget is approximately \$15 million annually.²⁷
- 6.36 The Government also supports documentaries through its National Interest Program. Film Australia's mission is to commission, distribute and manage programs that reflect Australian life. Film Australia's contract with the Government was worth \$6.9 million in 2001-02.²⁸
- 6.37 The film sector also benefits through co-production agreements with other countries. These agreements are usually conducted as memoranda of understanding between agencies or treaties. If productions qualify, they are considered as local productions in both nations and can receive production and market access benefits in both countries. Australia has treaties with the UK, Italy, Germany, Canada, Ireland and Israel. It has memoranda of understanding with France and New Zealand.²⁹
- 6.38 State governments mirror some of the activities of national agencies. For example, in 2002-03, the Pacific Film and Television Commission (PFTC – a Queensland agency) spent \$4.2 million on domestic development and \$2.3 million on incentives.³⁰ State governments also assisted in studio investments in Sydney, Melbourne and the Gold Coast.³¹

24 FFC, *Annual Report 2002-03*, pp. 25 and 52.

25 AFC, *Annual Report 2002-03*, pp. 141 and 142.

26 Senator the Hon. Richard Alston, *Government delivers film industry package*, (media release) viewed on 22 April 2004 at http://www.dcita.gov.au/article/0,,0_1-2_1-3_461-4_16024,00.html.

27 Mr Q. Dempster, *Survival – the challenge for public broadcasting in Australia*, viewed on 22 April 2004 at <http://www.ifj-asia.org/misc/quentin.pdf>, p. 7.

28 Department of Communications, Information Technology and the Arts, *Funding Boost of \$2.7 million for Film Australia* (fact sheet) viewed on 22 April 2004 at http://www.dcita.gov.au/article/0,,0_1-2_1-3_461-4_16020,00.html.

29 Screen Producers Association of Australia, submission no. 33, pp. 15-16.

30 PFTC, *Annual Report 2002-03*, p. 22.

31 Screen Producers Association of Australia, submission no. 33, p. 19

- 6.39 Queensland is not the only state government to provide financial incentives. South Australia provides payroll tax exemptions of 6 per cent to 7 per cent. The eligibility criteria for projects include being wholly or substantially produced within that State and employing South Australian residents. New South Wales provides tax rebates, also of 6 per cent to 7 per cent, through an incentive fund administered by Fox Studios.³²
- 6.40 The Australian, state and territory governments have combined to help fund AusFILM International Inc. This organisation markets Australia internationally as a location for film, television, commercials and similar production. It has a staff of seven and offices in Los Angeles and Sydney.³³ AusFILM also has 70 private sector firms as members, who pay a membership fee of between \$6,000 and \$10,000 annually. The Australian Government provides funding of \$1 million annually³⁴ and Austrade provides in-kind assistance overseas.³⁵
- 6.41 Local governments also participate. For example, the Gold Coast City Council included the film industry in its Economic Development Strategy, liaised with Queensland agencies on industry research, and developed the Pacific Innovation Corridor to encourage broadband infrastructure access.³⁶

Electronic games industry

- 6.42 To date, assistance specifically targeted at the games industry has been generated by state governments. For example, the Victorian Government has:
- developed an industry game plan;
 - spent \$150,000 to attract the Game Developers' Association of Australia (GDAA) to Melbourne;
 - secured the Association's annual conference for Melbourne;
 - spent \$250,000 for Victorian companies to use PlayStation 2 developer kits to develop prototypes of games;
 - commissioned a business plan to establish a cocoon game development studio;

32 Singapore Media Development Authority, *Creative Industries Development Strategy*, September 2002, Annex 4.1, viewed at <http://www.mda.gov.sg/media/industry.html> on 27 April 2004.

33 AusFILM International, submission no. 88, p. 2.

34 Mr I. Robertson, AusFILM International, *Transcript of Evidence*, 4 September 2003, p. 43.

35 Mr L. Downey, Austrade, *Transcript of Evidence*, 8 October 2003, p. 3.

36 Gold Coast City Council, submission no. 53, p. 2.

- examined the feasibility of a motion capture facility in Victoria to enable developers to digitise human movement;
 - been investigating the establishment of a games innovation centre in Melbourne;³⁷ and
 - made further arrangements so Victorian companies could use Xbox developer kits.³⁸
- 6.43 Queensland, which hosts approximately 40 per cent of the games industry, has also assisted its local industry. It provided \$2 million for 80 games scholarships and helped establish the Queensland Games Industry Cluster.³⁹
- 6.44 Governments around Australia have collectively assisted the industry in attending US games conferences. The Australian stand at the Electronic Entertainment Expo in 2003 was supported by the Australian Government and government agencies from Victoria, Queensland, and the ACT, as well as Brisbane City Council.⁴⁰
- 6.45 The AFC runs a number of general interactive media funds, which would be applicable to the games industry. The Commission distributed approximately \$474,000 under these funds in 2002-03. It is not apparent, however, what proportion of these funds went to the games industry.⁴¹

Programs applicable to the entire sector

- 6.46 The one program that appears to be directed to this general sector has been the establishment of the Film Industry Broadband Resources Enterprise Pty Ltd, also known as FIBRE. This organisation was established in November 2001 by a working party of industry representatives and \$650,000 in funding from the Australian Government.
- 6.47 One of FIBRE's roles is to assist firms in the industry negotiate broadband access from telecommunications carriers. Given most firms are SMEs, they are more effective in negotiating with large telecommunications firms if they pool their demand. Evidence presented later in the chapter demonstrates that firms in these industries tend not to collaborate. FIBRE assists these firms 'aggregate their demand'.⁴² The Committee understands

37 Film Victoria, submission no. 85, p. 12.

38 GDAA website, <http://www.gdaa.com.au>.

39 Queensland Minister for Innovation and Information Economy, submission no. 36, pp. 1-3.

40 GDAA, submission no. 54, p. 4.

41 AFC, *Annual Report 2002-03*, pp. 22 and 110-112.

42 FIBRE, submission no. 50, p. 1.

that FIBRE has assisted firms in Port Melbourne and Crows Nest in Sydney negotiate better broadband rates.

- 6.48 The remaining programs are typically federal programs that apply to the economy as a whole. Assistance is usually based on merit selection against proposals from the entire economy.
- 6.49 The first such program is the Export Market Development Grants (EMDG) scheme. Eligible firms are those with an income less than \$30 million. The scheme reimburses a certain percentage of eligible firms' export promotional spending above the first \$15,000. In a firm's first two years, the percentage is 50 per cent. Thereafter, payments are subject to an export performance test and are the smaller of the above figure and a percentage of export earnings. This percentage starts at 40 per cent in year three and reduces to 5 per cent in the seventh and final year.
- 6.50 The maximum grant for the scheme is \$150,000, although this may be reduced if there is high demand from businesses. Initial payments are now capped with the remainder being paid on a pro rata basis from the remaining pool of funds. For example, payments for 2001-02 were capped at \$60,000 and the remainder paid out at 32.84 cents in the dollar.⁴³
- 6.51 Another program is the R&D Start program, which supports research and development. For companies with an annual turnover of less than \$50 million (which comprises much of the games industry), the *Core Start* component can provide up to 50 per cent of project costs. Projects must involve research and development (R&D), but can also include related product development and market research. *Start Plus* applies to companies over the \$50 million threshold, which can receive up to 20 per cent of project costs.
- 6.52 'R&D' is a technical term with a definition that is narrower than 'product development.' R&D must involve innovation, technology transfer into Australia or technical risk.⁴⁴ In the 2004-05 Budget, the Australian Government announced the creation of the Commercial Ready program in 2006-07. The R&D Start program will be merged into this new initiative. Details of the new program will be finalised following consultation.⁴⁵

43 Austrade, *Export Market Development Grants: In Brief*, December 2003, viewed on 22 April 2004 at <http://www.austrade.gov.au/publications/AustradeEMDGInBrief.pdf>.

44 AusIndustry, *Grants for R&D Projects: Customer Information Booklet*, April 2004, viewed on 22 April 2004 at www.ausindustry.gov.au.

45 Department of Industry, Tourism and Resources, *The Commercial Ready Programme*, at http://backingaus.innovation.gov.au/2004/commercial/commercial_ready.htm.

- 6.53 The Australian Government also supports R&D through the Cooperative Research Centres (CRC) program. CRCs are R&D organisations jointly funded by the Australian Government, universities, industry and the CSIRO. There are 71 CRCs in six sectors: environment, agriculture, information technology and communications, mining, medical science, and technology and manufacturing. By linking researchers and industry, the program aims to better focus R&D on use and commercialisation. Federal funding is usually provided on a seven-year basis.⁴⁶
- 6.54 The Committee received evidence about two CRCs that would assist the industries examined in this inquiry.⁴⁷ The more established is the Distributed Systems Technology Centre, which was established in 1992 and received a further seven years' funding in 1999. Its research areas include knowledge and digital resource management, and workflow and collaboration.⁴⁸
- 6.55 The more recent CRC is the Interaction Design Centre, which was established in 2003. This CRC is centrally involved with the industries examined in this inquiry. The Committee received evidence of its field of operation:
- ...the next generation of hardware and software technologies need to be engineered on the basis of the real uses of end users and the new forms of content and new forms of social community group interaction that might emerge as a result of the various ways people access each other online. The centre is about finding the new ways in which we might live, learn, work and play in the digital world—in particular, focused on ways to enhance the way people participate in the digital world as the physical and digital converge.⁴⁹
- 6.56 Being research organisations, the pattern of benefits from CRCs is likely to be diffuse and benefit whole industries, rather than specific firms. Further, the benefits from a particular piece of work at a CRC are likely to be felt in the medium to long term, rather than immediately.

46 Cooperative Research Centres, *About the Programme* viewed on 27 April 2004 at http://www.crc.gov.au/information/about_programme.aspx.

47 University of Technology, Sydney, submission no. 11, p. 2.

48 Distributed Systems Technology Centre, *About DSTC*, viewed on 27 April 2004 at <http://www.dstc.edu.au/aboutdstc/index.html>.

49 Professor J. Jones, Queensland University of Technology, *Transcript of Evidence*, 24 July 2003, pp. 66-67.

Appropriate policy settings

A sector based on fee-for-service or intellectual property?

6.57 Jack Welch, the former CEO of General Electric, stated during a recent visit to Australia that:

...the most successful companies in the future will be those that create intellectual capital.⁵⁰

6.58 The industries examined in this inquiry demonstrate a significant component of fee-for-service work for overseas publishers and producers, instead of generating and capturing the benefits of intellectual capital. In the games industry, there is only one Australian-based publisher. The remainder of firms are developers that are funded by publishers on a project basis.⁵¹ The computer animation industry also saw itself as largely fee-for-service.⁵² As noted earlier in the chapter, the Queensland film production industry focuses on international production and Austrade has noted a growing trend in the Australian film industry towards this type of work.

6.59 Fee-for-service work has a number of risks, including:

- exchange rate movements;
- competition from developing Asian nations such as India and China that have low labour costs; and
- other countries offering their own tax incentives.

6.60 Importantly, many of these risks are outside the control of local firms. The only risk that local firms can themselves manage to any extent is low cost competition from developing nations. The remedy is to outsource production to those areas, which already occurs to some extent.⁵³

6.61 An example of tax incentive risk was the New Zealand Government's announcement of its own tax offset for film production, which also extended to television series. Fiji has offered its own rebates and the Committee heard how South Africa is now beginning to win work that

50 Allanbank International, submission no. 90, p. 2.

51 Mr A. Lancman, GDA, *Transcript of Evidence*, 20 August 2003, pp. 1-2.

52 Mr M. Hollands, Act3 Animation, *Transcript of Evidence*, 28 August 2003, p. 65.

53 Pacific Vision, submission no. 51, p. 3.

previously would have come to Australia.⁵⁴ Cutting Edge Post outlined the prospects of fee-for-service work:

So, while we are seeing the international work increase out of LA, we are also seeing the number of countries that want to get involved in doing that work increase exponentially, which is making it harder and harder for companies in Australia—as innovative as they are, as clever as they are and as capable as they are of delivering the product. Unfortunately, more and more it comes down to the dollar and how cheaply these people can get their films made. From their point of view, they are being driven harder and harder by the studios because there is less and less of a return or there is less money available, so they are having to find more and more innovative ways to make those productions.⁵⁵

- 6.62 On the other hand, it might be preferable for Australian firms to concentrate on developing and exploiting intellectual property, including, but not limited to, locally developed content. The difference in financial return between owning intellectual property and being a fee-for-service provider is illustrated in the following case study from the games industry.
- 6.63 Ratbag Games developed *Dirt Track Racing* (1999) and *Dirt Track Racing Sprint Cars* (2000) for the PC platform. The total development costs were \$370,000, which were advanced to Ratbag by the publisher in return for intellectual property rights. The two titles generated sales of \$4.6 million and, under the contract, Ratbag's return was less than \$800,000. However, if Ratbag had been able to self-fund the games, it probably would have received \$2.4 million.⁵⁶
- 6.64 To take another example from the games industry, its fee-for-service work generates \$100 million of game design exports. This translates, however, to \$750 million in retail sales for overseas publishers.⁵⁷
- 6.65 As noted in Chapter 1, the 1927 Royal Commission identified four key requirements for a film industry, being capital, content, personnel and equipment (that is production), and distribution. All of these, except production, are required to generate suitable returns on intellectual property. The Committee heard in evidence that the US seeks to exploit

54 Mr J. Lee, Cutting Edge Post, *Transcript of Evidence*, 25 July 2003, p. 15.

55 *ibid.*

56 The Allen Consulting Group, *Game Industry Development Strategy*, 8 October 2003, p. 18.

57 GDAA, submission no. 54, p. 8.

intellectual property such as game/film spin-offs, but is happy to outsource fee-for-service work such as production:

This is serial exploitation of IP—intellectual property. It is where the Americans and the entertainment industry in general—but it is dominated by the Americans—are seeing the future. That is where the profits are—from exploitation of IP, not from fee-for-service production. The companies that we deal with—Atari, Midway, Paramount, these kinds of people—do not really care where something is made as long as they are making the profit from the IP. That is the long and short of it.⁵⁸

- 6.66 Since the mid 1990s, culture (supported by copyright protection) became the number one export for the US.⁵⁹ As noted earlier in the chapter, imports in Australia of cultural goods and royalty payments exceed their related exports by at least four to one. Further, the Committee received evidence that production is the high-risk component of the film business, and that profits are generated through distribution.⁶⁰
- 6.67 In light of the above discussion, the Committee has decided to recommend an intellectual property strategy for these industries. The Committee received a number of suggestions in submissions for such a strategy.⁶¹
- 6.68 To be effective, a strategy needs to be underpinned by concrete actions. During the rest of the chapter, this report will examine how effectively the industries subject to this inquiry have used intellectual capital by reference to the four requirements listed by the 1927 Royal Commission. Where appropriate, the report will make recommendations to support the strategy. The Committee's recommendations should not be seen as exhaustive. This inquiry has operated within its terms of reference and there are likely to be matters external to the inquiry that should also be considered.
- 6.69 The former National Office of the Information Economy suggested that any such strategy would be experimental and raised the question of which sectors would be included in such a strategy:

A lot of the innovation policies we have in place at the moment—I am certainly not singling out Australia here; this is common around the world—emerged from an industrial economy which

58 Mr M. Hollands, Act3 Animation, *Transcript of Evidence*, 28 August 2003, p. 66.

59 Mr N. Milan, SBS, *Transcript of Evidence*, 17 September 2003, p. 10.

60 Mr B. Rosen, FFC, *Transcript of Evidence*, 5 November 2003, p. 6.

61 Allbank International, submission no. 90, p. 2, Australian Interactive Media Industry Association, submission 42, p. 14 and Confidential, submission no. 38, p. 6.

was focused on primary and manufacturing production. We still do not really fully understand how to do innovation policy for a service economy. I think that is probably reflected in the way that the digital content is addressed in innovation policy. It is a factor. We have the data to suggest that funding for innovation to the digital content sector is underweight relative to its economic contribution. There are probably many reasons for that; there would be no one reason. But it does open up the question of what an innovation policy for this sector would really look like. The big question is: should we be thinking about innovation in the film sector and innovation in the games sector separately, or should we actually have a more coherent strategy for the entire sector?⁶²

- 6.70 Following the discussion in Chapter 5 on convergence, the Committee is of the view that any such innovation policy should cover all the industries examined in this inquiry. The strength of the links between the industries may vary, but they exist and strengthening them would be to the industries' benefit.

Recommendation 24

- 6.71 **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.**

Developing content that has audience appeal

- 6.72 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, such as pursuing the Australian voice, and those who call for a greater focus on the economic benefits, that is, pursuing Australian business opportunities. As the New South Wales Film and Television Office stated:

The interplay between a local industry, created for a cultural rationale and the "industrial" footloose production (which has an

62 Mr D. Kennedy, former National Office for the Information Economy, *Transcript of Evidence*, 15 October 2003, p. 8.

economic rationale) is a key characteristic of film industries around the world, and applicable to the situation in NSW.⁶³

- 6.73 One example of an organisation that supported the cultural rationale was the Media, Entertainment and Arts Alliance, which quoted the Universal Declaration on Cultural Diversity. This declaration warns against ‘the grave danger of the standardisation of cultures’.⁶⁴ The Tasmanian Government stated that ‘culture is at the core’ of government support for creative audio-visual industries.⁶⁵
- 6.74 A number of business organisations, however, argued that they were limited in their ability to generate a profit, or create content that had wide audience appeal, due to the current cultural policies.⁶⁶ The Committee also received evidence that current cultural policies caused Australia’s best talent to move overseas in search of new challenges and opportunities.⁶⁷
- 6.75 From the evidence in this inquiry, the Committee has decided that there needs to be more focus on audience appeal, especially in the film industry. One straightforward reason is that greater audiences increase the benefits of a project.
- 6.76 Further, it appears that the model of ‘cultural standardisation’ is not compelling. The interplay of cultures could well be more complex. For example, the US does not simply project its culture on the rest of the world. It is also subject to cultural influences from elsewhere.⁶⁸ Hollywood, for instance, was established partially by expatriate Europeans and it continues to be ‘a great importer of everything’.⁶⁹
- 6.77 Further, people from different countries and ethnic groups are likely to view and interpret the same material differently. Therefore, they might be considered to be actively assessing the content using their own culture as a guide.⁷⁰ Finally, domestic culture can be an asset in seeking audiences. Nations have the opportunity to adapt their own cultures for global audiences.⁷¹

63 NSW Film and Television Office, submission no. 56, p. 3.

64 Media, Entertainment and Arts Alliance, submission no. 59, p. 4.

65 Tasmanian Government, submission no. 73, p. 4.

66 BigKidz Entertainment, submission no. 13, p. 9; ASTRA, submission no. 60, p. 3.

67 Allanbank International, submission no. 90, p. 8.

68 *ibid.*

69 Mr J. Bean, ScreenWest, *Transcript of Evidence*, 30 September 2003, pp. 41 and 42.

70 Allanbank International, submission no. 90, p. 9.

71 *ibid.*

- 6.78 As noted earlier in the report, there has been concern expressed recently in the media regarding the profitability and audience appeal of Australian films.
- 6.79 *The Sydney Morning Herald* reported that this lack of success related to quality, rather than culture:
- [Sue] Masters and [Hugh] Mackay don't see the failure of recent Australian movies as part of the same problem as the downturn in television drama. Aussie movies are failing because they are not good enough, not because audiences have a general aversion to them.⁷²
- 6.80 One indicator of whether a film has audience appeal is whether it makes a profit. In the 15 years until 2003, the FFC has invested in 169 feature films, of which only eight had turned a profit. Two more, *Rabbit Proof Fence* and *Lantana*, were expected to also become profitable.⁷³
- 6.81 The Committee regards audience appeal as an important component of delivering benefits from a film or computer game. The link to economic benefits is clear. Further, for two films of equal cultural value, the more popular film will have greater cultural benefits. As the PFTC noted, 'you cannot have a cultural identity if you do not get people seeing the films.'⁷⁴
- 6.82 Although the film industry worldwide is well known for having a large proportion of loss-making projects,⁷⁵ the Committee wished to examine some of the relevant factors that had been raised in evidence and in the public domain as to what might increase the chances of a film's success.

Budgets

- 6.83 The Committee received evidence from a number of sources that small budgets had limited the market appeal of our films. Samson Productions noted:

The low budget "comedy" feature films of which there has been a plethora over the past few years, generally do well at the box office in Australia but do not export. Australian films need to step up into a new league, of more complex, interesting stories and greater production values. This means some films with bigger

72 Anon., 'No great drama, mate', *The Sydney Morning Herald*, 6 September 2003.

73 D. Groves, 'Film funder takes hard look at major revamp', *Variety*, 17 November 2003, viewed at <http://www.keepmedia.com/pubs/Variety> on 10 May 2004.

74 Mr H. Tefay, PFTC, *Transcript of Evidence*, 24 July 2003, p. 56.

75 Ms M. Reid, FFC, *Transcript of Evidence*, 5 November 2003, p. 6.

budgets. But bigger budgets also mean half as many films on the available FFC resources.⁷⁶

- 6.84 During hearings, the FFC made a similar point. In particular, Australia has developed a group of very talented and internationally successful people, including actors, directors and cinematographers. Local budgets, however, are usually too small to deliver these people the kind of work that suits their professional needs. Given that Australian films are competing in a global market, it makes sense to develop films with larger budgets to deliver the production values audiences expect and take advantage of this home-grown expertise.⁷⁷
- 6.85 The Committee received similar evidence in relation to documentaries. Currently, the funding for documentaries generally only permits support for single programs or shorter series. This means they are less attractive to commercial networks, which must spend more per hour in promoting the programs. Good production values are also important.
- 6.86 Audience appeal, however, is possible with documentaries, especially when there is a sufficient budget. As noted earlier in the report, Film Australia reported that its 25-part series, *Our Century*, 'won its slot practically every week that it aired'. *RPA* is another long running documentary and it regularly rates in the top 20 Australian programs.⁷⁸
- 6.87 One comment the Committee would like to make in relation to the size of budgets is that it is to some extent related to the industry's SME structure. If most firms are SMEs, they are going to find it more difficult to put together the required financial backing to ensure large scale commercial success.
- 6.88 The Media Entertainment and Arts Alliance described the life cycle of a typical independent film producer who has a small production company:
- The producer is that company's sole employee for the majority of the time.
 - When finance for a production is secured, approximately ten people might be employed for two months.
 - Employment increases as the shoot date approaches to approximately 50 people for approximately eight weeks.
 - Employment during shooting may peak at over 100 on any single day.
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76 Samson Productions, submission no. 31, p. 3.

77 Mr B. Rosen, FFC, *Transcript of Evidence*, 5 November 2003, p. 2.

78 Ms S. Connolly, Film Australia, *Transcript of Evidence*, 26 November 2003, pp. 4-5.

- After shooting, employment might drop back to six persons for another four months.
 - Then dropping back to the single producer until the next production.⁷⁹
- 6.89 Later, this report discusses the impact of the SME structure in making it difficult for firms to conduct R&D when they are concentrating on winning the next contract.⁸⁰ Similarly, the view has been expressed that small, independent producers are more likely to take their production fee than further develop a project to improve their chances of making a successful production.
- SPAA is critical of the number of producers rushing films into production simply so they can grab their fee, when those films' screenplays could do with a lot more work.⁸¹
- 6.90 Relating back to the four 'Royal Commission' requirements referred to in paragraph 1.8, the issue of budgets is closely connected to the first requirement, capital.

Scripts

- 6.91 The Committee received evidence that film scripts in Australian films need more development. As noted in the discussion in budgets above, single producers may be tempted to move from the development phase to production to receive their fee earlier, rather than keep developing the script and benefit from a potentially larger commercial return later on.⁸²
- 6.92 The Australian Children's Television Foundation advised that Australian scripts are under developed in comparison with overseas projects:
- A survey of feature films backed by the FFC in the years 1997-1999 showed that an average of only 1.4% of the total budgets was spent on development. This compared with an average of 2% on development in the UK, 5% in Canada and 10% in the USA.⁸³
- 6.93 Other industry figures agree:
- [Sue] Masters says some Australian movie scripts go to the screen "undercooked" – they are not worked on and rewritten as much as the average television drama, and audiences can tell. "The last

79 Media Entertainment and Arts Alliance, submission no. 59, p. 16.

80 University of Technology, Sydney, submission no. 11, p. 3.

81 L. Barber, 'Box-office blues', *The Weekend Australian*, 6-7 September 2003.

82 See also P. Crayford, 'Not enough happy endings', *Australian Financial Review*, 23 August 2003.

83 Australian Children's Television Foundation, submission no. 29, p. 7.

Australian hit movie, *Crackerjack*, might have looked easy,” she says, “but it was the result of years of work by Mick Molloy and others”.⁸⁴

- 6.94 More recently, there have been media reports that attempts to improve script development are resulting in better projects. Programs directed towards this goal include the New Feature Film Writers Scheme in 2002-03, the national residential script workshop program supported by the NSW Film and Television Office and the AFC, SPARK and Film Victoria’s Arista program.⁸⁵
- 6.95 Having a good script relates back to the second of the Royal Commission requirements, namely content. The Committee will consider what action might be taken later in the report.

Commercialisation of Australian intellectual property and content

Film, animation and special effects industries

- 6.96 In light of the concerns expressed about the success of Australian films, the Committee sought evidence at hearings on how firms derived their profits. The FFC commented that ‘the money-making part of the industry is not production; it is distribution.’⁸⁶ Firms in the industry concurred with this view.⁸⁷
- 6.97 As noted earlier in the report, film production is risky because it is difficult to assess and modify a film while it is under production, unlike a computer game. Further, in film production, a company must wear a certain number of losses for each success. Distribution, however, is much less exposed to these risks. If a film is not popular, it is much easier for a distributor to shelve it because they have not made such a significant investment in it as the production company. Further, most distributors manage a large number of films, so they diversify their risks.
- 6.98 The main reason Hollywood distributors produce films is to provide content for their distribution businesses.⁸⁸
- 6.99 The FFC, however, took the view that Australia’s policy settings were production oriented without linking the product to distribution.

84 Anon., ‘No great drama, mate’, *The Sydney Morning Herald*, 6 September 2003.

85 S. Williams, ‘Script to let good times roll’, *The Australian*, 28 April 2004.

86 Ms M. Reid, FFC, *Transcript of Evidence*, 5 November 2003, p. 6.

87 Ambience Entertainment et al, submission no. 100, p. 19.

88 Ms M. Reid, FFC, *Transcript of Evidence*, 5 November 2003, p. 6.

If you look at the industry we are in, whether it is film or television, distribution is the driving force behind it. Even in the UK you can see that Sir Alan Parker, who is head of the Film Council, is saying we have to start changing how we do things and look at distribution, because distributions leads production. What we have here is production pushing distribution. Production is a highly risky area in making a film. You have to look at film making like venture capital. It is like going out to Bass Strait and starting to drill holes and somewhere along the way you are going to find some oil.⁸⁹

6.100 An overview of the industry support in Australia indicates that many of the measures are production focussed. For example, the income tax incentives are production-based. Films that lose money, break even or make a large profit all receive the same accelerated deduction. Payroll tax rebates from state governments are also triggered by production.

6.101 The FFC has attempted to generate a distribution link by requiring producers to have a distribution advance or guarantee for Australia and a sales agent for the rest of the world as a condition for funding.⁹⁰ In evidence, Samson Productions supported the principle behind this approach:

Somebody had to think about this. Somebody else in the market had to think that their film or this piece of television was worth making...⁹¹

And it had to be real commercial money. It had to be a proper exhibitor. It could not be your mum or dad.⁹²

6.102 However, most films are now funded through 'soft money' such as tax funds, government assistance and content requirements. Distributors now only make a small contribution to Australian films and hence they are not at risk.⁹³ Therefore, the Corporation's funding has also tended to be focussed on production.

89 Mr B. Rosen, FFC, *ibid.*, pp. 6-7.

90 FFC, *Investment Guidelines 2003-04*, July 2003, pp. 5-6, viewed on 14 April 2004 at <http://www.ffc.gov.au>.

91 Ms S. Milliken, Samson Productions, *Transcript of Evidence*, 5 September 2003, p. 11.

92 Ms A. Browning, *ibid.*

93 FFC, *Background to Proposed Changes in the FFC's Draft Investment Guidelines 2004-05*, April 2004, p. 2, viewed on 14 April 2004 at <http://www.ffc.gov.au>.

- 6.103 In most industries, the demand of the market place directs what will be produced, also referred to as 'distribution-pull.' Although successive governments have sought to support the industry for a number of reasons, it appears that the measures have overridden the force of market demand to such an extent that the number of unsuccessful films being produced has reached a sufficiently high level to cause concern in the industry and wider community. To be successful, it appears that government policies need to give greater recognition to consumer demands.
- 6.104 Elements of this more sophisticated approach are in content regulation. Clause 10 of the Broadcasting Services (Australian Content) Standard 1999 requires commercial broadcasters to air a certain amount of Australian drama during prime time (5 pm to 11 pm). This period is the commercial broadcasters' key revenue raising opportunity. Hence, the commercial broadcasters have a strong incentive to ensure that the locally produced content they commission is popular. Locally produced content that does not attract a sufficiently large audience share (often 1 million viewers) faces an uncertain future. If the station cancels a show, it is still required to meet its quota and will need to find replacement Australian drama.
- 6.105 The public sector broadcasters, in purchasing and broadcasting local productions, work in a similar way. As broadcasters, they can guarantee distribution for locally commissioned programs.⁹⁴ Further, they are publicly accountable for their ratings to ensure their programs achieve a sufficiently wide audience.
- 6.106 Although the local film industry does not have this level of integration, the film industry in the US does. There, the film industry is vertically integrated with 'production, distribution and exhibition all financing.'⁹⁵
- 6.107 This is, once again, an issue related to the SME structure of the industry. Without sufficient scale, local firms will not be able to develop the necessary vertical integration to link production and distribution. The Committee received evidence to this effect:

Independent producers are a form of entrepreneurial talent, but they're not moguls. The evidence from too many years is clear that our producers are never going to build the companies which will form the basis of a successful film industry. It might work in television – Reg Grundy and Southern Star are two shining examples, but it hasn't worked in film.⁹⁶

94 Ms G. Rowe, SBS, *Transcript of Evidence*, 17 September 2003, p. 10.

95 *ibid.*

96 Ambience Entertainment et al, submission no. 100, p. 17.

- 6.108 The Committee will examine how the Australian Government's feature film agencies might more fully address distribution for these industries within current programs.
- 6.109 The discussion so far indicates that the film industry is having difficulty in securing three of the four Royal Commission requirements. The Committee received evidence in relation to the high quality of Australian production, such as its crews, locations and equipment.⁹⁷ However, there is sufficient evidence to indicate cause for concern in relation to capital, content and distribution.

Games industry

- 6.110 It is valuable to consider the games industry in light of the four Royal Commission requirements. As noted earlier in the chapter, the games industry has often had to trade away its intellectual property in return for development funding, or capital, from publishers. Although this practice allows the companies to stay in business and develop new products, it leads to a significant loss of economic value over the longer term. The Committee would like to present this additional example:

Dark Reign was developed by Auran and published by Activision (one of the largest publishers in the US marketplace). The publishing deal was structured so that Activision provided development funding after they had been presented with an electronic proof of concept. Activision in turn received the copyright to Dark Reign.

Dark Reign subsequently sold 685,000 copies in 58 countries, grossing over US \$12 million for Activision. Auran received less than half the royalty rate it would have received had it been able to self fund the development of Dark Reign.

Due to the market success of Dark Reign, Activision decided to fund the development of a sequel. However, as Auran had no copyright to the title, it was not included in the sequels development and did not receive any royalties from the sale of the sequel.⁹⁸

- 6.111 In other respects, however, the games industry appears to be performing well. As noted earlier in the chapter, of its \$110 million annual turnover, \$100 million is exports. Any industry that is competitive in the world market without government subsidy must be trading off significant

97 Austrade, submission no. 37, p. 5.

98 The Allen Consulting Group, *Game Industry Development Strategy*, 8 October 2003, p. 18.

competitive advantages. Austrade noted that these included low development costs, a high skill level, and content that has ‘a uniqueness that appeals across all cultures.’⁹⁹

6.112 At this stage, it appears that the games industry has secured all of the four Royal Commission requirements except for capital. This arrangement probably explains why it is a profitable industry, but limited in being able to use its creative success to fund further growth.¹⁰⁰

6.113 In order to address these capital issues, the GDAA commissioned the Allen Consulting Group to develop an industry development strategy. This strategy will be considered later in the chapter.

Business skills in the industries

6.114 The industries examined in this inquiry are both artistic and business endeavours. As the FFC stated in evidence:

John Woodward, who is the Chief Executive of the UK Film Council, has said, “As a long forgotten Hollywood wit once said, the trouble with movies as a business is that they’re an art, and the trouble with the movies as an art is that they’re a business”.¹⁰¹

6.115 However, the Committee received a number of comments and submissions arguing that the current level of business skills in the industry needed improving. In particular, the Australian Film Television and Radio School suggested that the lack of collaboration and the SME structure of the industry could be addressed through business education:

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

99 Austrade, submission no. 37, pp. 14-15.

100 Queensland Game Developers Cluster, submission no. 78, p. 3.

101 Mr B. Rosen, FFC, *Transcript of Evidence*, 5 November 2003, p. 9.

to be able to address the local and international markets from a firmer business base.¹⁰²

- 6.116 Another training institution that recognised the importance of business skills is the Film and Television Institute of Western Australia:

Much of the inquiry, I think, mentions training. Training, in and of itself, I do not believe will achieve results. The training has to be at the front end of what is basically team building in content creation. Traditionally the output or business of training institutions is training. Our output and business is not training, it is actually business development.¹⁰³

- 6.117 The Institute takes an innovative approach to intellectual property. At the start of each cycle, students sign over their intellectual property to the Institute. As the students form teams and work on projects, they then negotiate back their intellectual property from the Institute. The Institute argued that too many schools kept students' intellectual property. This approach gave students a disincentive to do good work at university because the university would retain the benefits.¹⁰⁴

- 6.118 Singapore's Media Development Authority has also recognised the importance of intellectual property. Its recent creative industries development strategy states, 'The acquisition and protection of intellectual property is therefore vital to retaining the value.' The strategy recommends that industry knowledge of intellectual property rights be enhanced.¹⁰⁵

- 6.119 A number of film agencies have recognised the need for business skills in the industry. The NSW Film and Television Office, Film Victoria, the AFC, ScreenWest and the Australian Film Television and Radio School have established the joint venture ENTERPRISE AUSTRALIA. The program involves a media industry management consultancy giving local producers practical guidance on developing sustainable businesses. The aim is to prevent the 'hand to mouth' existence that many independent producers experience.

102 Mr M. Long, Australian Film Television and Radio School, *Transcript of Evidence*, 4 September 2003, p. 22.

103 Mr T. Lubin, Film and Television Institute of Western Australia, *Transcript of Evidence*, 30 September 2003, p. 29.

104 *ibid.*, p. 36.

105 Media Development Authority, *Creative Industries Development Strategy*, September 2002, viewed at <http://www.mda.gov.sg/media/industry.html> on 29 April 2004.

- 6.120 In announcing the program, the Chief Executive of the AFC noted that cash flow problems have led producers to go into production prematurely.¹⁰⁶ This corroborates the Committee's comments in relation to budget development.
- 6.121 The GDAA suggested business development skill seminars for start ups and growing companies.¹⁰⁷ This suggestion effectively amounts to establishing an ENTERPRISE AUSTRALIA program for the games industry. In light of the similarities between the industries examined in this inquiry, and instead of creating a new program, an efficient solution to this matter would be to examine whether the ENTERPRISE AUSTRALIA program could be extended to the games industry.

Recommendation 25

- 6.122 **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.**
- 6.123 Although it fills a gap, ENTERPRISE AUSTRALIA is unlikely to address the wider issue of a general lack of business skills in these industries. A longer term solution would be to incorporate business skills in the initial training for these industries. The Committee received a significant number of comments and suggestions along these lines.¹⁰⁸ The creative industries are known for the volatility of their labour markets. If graduates are not able to secure employment in their chosen field, they will at least have wider employment prospects.
- 6.124 As noted above, a number of educational institutions for these industries have already recognised the importance of these skills. Further, the GDAA has been organising education skills and training roundtables in Queensland and Victoria that focus on that industry's needs in business

106 AFC, *ENTERPRISE AUSTRALIA: Business Strategies for the Independent Producer Inaugural Program Announced*, media release, 24 June 2003, viewed at <http://www.afc.gov.au> on 29 August 2003.

107 GDAA, submission no. 54, p. 19.

108 See for example the Queensland Minister for Innovation and Information Economy, submission no. 36, p. 7; CREATE Australia, submission no. 46, p. 4; NSW Department of State and Regional Development, submission no. 61, p. 1; and JMC Academy, submission no. 69, pp. 2-3.

skills and project management.¹⁰⁹ The Committee would like to see these first steps develop into a comprehensive business skills program for the industries examined in this inquiry.

Recommendation 26

- 6.125 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.**

Reform of the Australian Government's feature film agencies

Corporate goals and performance reporting

- 6.126 During the inquiry, the Committee received comment from the PFTC that the FFC and the AFC should re-examine their corporate goals and how they measure their performance:**

Some of the issues facing the industry could be addressed by implementing a more rigorous regime of strategic planning. For example, the corporate plans of the AFC and the FFC do not appear to have quantifiable objectives or, indeed, performance indicators that identify the success or otherwise of specific programs. As you would know, without quantifiable objectives it is extremely difficult to identify inadequacies in particular programs and even more difficult to remodel the program into one that is successful... By way of example, one of the FFC's objectives is to "finance the production of a diverse range of Australian film and television product."

This is more of a description of what that organisation does rather than a quantifiable objective whose outcome can be measured. A new business model would rephrase that objective to read, for example, "to finance the production of a diverse range of

109 Ms E. Richardson, GDA, *Transcript of Evidence*, 20 August 2003, p. 5.

Australian film and television product that generates an average recoupment of at least 35 per cent".¹¹⁰

- 6.127 It should be understood that these agencies do invest in reporting their performance in their annual reports. The FFC's *Annual Report 2002-03* provides an investment overview and recoupment breakdown back to 1988-89. The AFC provides a number of statistics on projects that it has supported going into production and being distributed. The Committee is satisfied that these agencies recognise the importance of this information.¹¹¹
- 6.128 It appears to the Committee, however, that there are a number of ways in which these agencies could improve their corporate goals and performance reporting. For instance, in relation to corporate goals, the PFTC provided the Committee with the following example for the AFC.¹¹²
- 6.129 The Commission's first objective is to 'resource and facilitate the development of outstanding Australian film, television and interactive digital media projects.' The PFTC suggests that this objective will not be effective because it is difficult to quantify and measure. The indicators for this objective are statistics on the number of projects assisted under the relevant programs.¹¹³ The Committee notes that these statistics are inputs rather than effectiveness data. In other words, they focus on resources rather than results.
- 6.130 The PFTC suggests a replacement objective, namely to 'ensure a significant number of quality film, television and interactive media projects are developed that secure production finance and reach a wide audience.' It then suggests the following indicators:
- projects developed by the Commission and which secure production finance achieve at least 10 per cent of the Australian box office and recoup an average of 40 per cent of the cost of production;
 - over a three year period, at least 20 per cent of projects receiving development finance are produced;
 - increase the number of projects developed each year by 10 per cent; and

110 Mr H. Tefay, PFTC, *Transcript of Evidence*, 24 July 2003, p. 55.

111 *ibid.* and FFC and AFC, submission no. 92, pp. 2-3.

112 PFTC, submission no. 89, p. 15.

113 AFC, *Annual Report 2002-03*, p. 22.

- all television projects to secure co-development finance and 20 per cent of feature film projects to secure co-development finance from the market.¹¹⁴
- 6.131 This example usefully demonstrates the principles of measurability. The indicators will enable the industry and the wider community to assess easily the extent to which the agency is performing its role. In discussing performance information and performance indicators, the Auditor-General suggested measurability would assist managers:
- At the highest level, they are a measure which enables managers to monitor progress towards achieving the objective, to indicate if they have been successful or how far away they are from achieving the specified objective.¹¹⁵
- 6.132 Following on from earlier discussion, the Committee considers that the benefits of film industry assistance will be greater if more people see Australian films, both within Australia and overseas. The Committee suggests that the agencies' corporate goals, strategies and indicators should place greater emphasis on distribution of Australian content. As noted earlier, much of the government assistance focuses on 'production-push', rather than 'distribution-pull'.
- 6.133 For example, the AFC publishes limited distribution figures in its annual report. The *Annual Report 2002-03* provides data on the percentage of the films or short features it supports that obtain a theatrical release, or television licence or presale (72.7 per cent in that year).¹¹⁶ Although these productions have the opportunity of attracting an audience and delivering wider cultural benefits, this is not guaranteed. If a film is not popular, for example, it will be discontinued after a week.¹¹⁷ Statistics on the number of people who view assisted projects would be more useful to the community. They would also help the Commission build up a data set to determine which of its programs are effective and why.
- 6.134 The Committee also notes that the Commission's outcome under its portfolio budget statement is focussed on production, rather than distribution. The agency's indicator is:

114 PFTC, submission no. 89, p. 15.

115 Mr P. Barrett, 'Performance Standards and Evaluation,' *Australian Journal of Public Administration*, 56(3), 96-105, September 1997, p. 97.

116 AFC, *Annual Report 2002-03*, p. 66.

117 Mr H. Tefay, PFTC, *Transcript of Evidence*, 24 July 2003, p. 57.

An internationally competitive Australian film and television production industry, which enhances Australia's cultural identity.¹¹⁸

- 6.135 In the sense of meeting its portfolio budget statement outcome, the Commission has been successful. The early parts of this chapter demonstrate that much of the government assistance for the industry has been focussed on production. The Committee, however, finds that the benefits of the industry increase with audience size. This outcome should be amended to have a distribution focus.
- 6.136 In the case of the FFC, it also goes part of the way to providing distribution data because its annual report provides a recoupment breakdown since 1989-90, a list of high-grossing Australian films, and a breakdown in recoupment between Australia (21 per cent) and overseas (79 per cent). It also provides a list of films with a theatrical release.¹¹⁹
- 6.137 A number of improvements, however, could be made to this information. For instance, one of the corporation's objectives is to maximise recoupment.¹²⁰ Given this quasi-commercial role, publishing the level and proportion of investment and the rate of return, both at the agency level and for individual films, would add useful context to how the corporation is meeting this objective.¹²¹
- 6.138 Another comment is that recoupment arrangements vary across films. A dollar of recoupment for one film may indicate a different level of audience for a dollar of recoupment from another film. Audience figures would help readers evaluate the cultural benefits of each project. It should also be noted that the Corporation's objectives do not directly relate to maximising audiences for Australian content. This matter could also be considered.
- 6.139 To be fully effective, key performance indicators and their related targets should have some ownership from the agency involved. The Committee, therefore, does not wish to recommend that the agencies adopt these suggestions precisely. The Committee presents them to assist the film agencies in reviewing their corporate goals and performance information.

118 AFC, *Annual Report 2002-03*, p. 66.

119 FFC, *Annual Report 2002-03*, pp. 25-28 and p. 47.

120 FFC, *About the FFC*, viewed at http://www.ffc.gov.au/about/ffc_int_about.asp on 29 April 2004.

121 Allanbank International, submission no. 57, p. 31.

Recommendation 27

6.140 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.**

Project selection

6.141 The Committee heard a wide range of views on whether the film agencies should be supporting the industry for cultural or commercial reasons. Determining this strategic issue would then feed into project selection. Some of the points of view were:

- success is generated by good content, which in film typically means a good script;¹²²
- for the film industry, cultural and business success are one and the same;¹²³
- the aim of assistance is to tell Australian stories;¹²⁴
- making products overtly Australian is a hindrance in the international market;¹²⁵
- cultural diversity should be protected against globalisation, which is forcing cultures to standardise;¹²⁶ and

122 Professor J. Sabine, Victorian College of the Arts, *Transcript of Evidence*, 28 August 2003, p. 12 and B. Beresford, 'How to choose a film script', *The Australian*, 8 September 2003.

123 PFTC, submission 47, p. 2; Allanbank International, submission no. 90, p. 7; and Ambience Entertainment et al, submission no. 100, p. 6.

124 Ms S. Milliken, Samson Productions, *Transcript of Evidence*, 5 September 2003, p. 12; Mr B. Rosen, FFC, *Transcript of Evidence*, 5 November 2003, p. 9 and Tasmanian Government, submission no. 73, p. 4.

125 Bigkidz Entertainment, submission no. 13, p. 9 and Light Knights Productions, submission no. 48, p. 13.

126 Media Entertainment and Arts Alliance, submission no. 59, p. 4.

- government support should be framed around the basic principle that this activity is an industry, which makes products and employs people.¹²⁷
- 6.142 The Committee would like to pursue the twin goals of making Australian stories and having Australian films develop larger audiences. These goals are not mutually exclusive. The following comparisons demonstrate how successful Australian films and cover many of the same themes, plots and ideas as successful Hollywood films, yet they are still distinctively Australian:
- compare *Lantana* with *The Big Chill*;
 - compare *Shine* with *A Beautiful Mind*;
 - compare *Mad Max* with *Terminator*; and
 - compare *Strictly Ballroom* with *Dirty Dancing*.
- 6.143 The Committee is confident that a good story, told by Australians, will bring significant cultural and economic benefits.
- 6.144 For the FFC to offer funding, a film must receive a provisional certificate that it is a 'qualifying Australian film' under Division 10BA of the *Income Tax Assessment Act 1936*. If a film passes this hurdle, it will tell an Australian story. The next step is to select the projects that are most likely to succeed. Bruce Beresford's comments are instructive:
- Selecting the best scripts is the key. Look at the recent international success of the low budget New Zealand film *Whale Rider* and the British films *Bend it Like Beckham*, *The Full Monty* and *Billy Elliot*.¹²⁸
- 6.145 Austrade made a similar suggestion:
- I think the real issue is we have to keep our creative edge. We have to be open, and creativity is not necessarily about throwing money at things.¹²⁹
- 6.146 The Committee finds that this approach is in line with most, if not all, of the opinions expressed about the rationale of film industry support. Further, seeking to produce the best scripts is consistent with the second Royal Commission requirement of content.
- 6.147 Selecting the best scripts, however, is a challenging task. Bruce Beresford commented that most people who select scripts for investment or
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127 Australian Capital Territory Government, submission no. 77, pp. 10-11.

128 B. Beresford, 'How to choose a film script', *The Australian*, 8 September 2003.

129 Mr L. Downey, Austrade, *Transcript of Evidence*, 8 October 2003, p. 7.

production are 'not capable of recognising good material'.¹³⁰ The Australian Government's feature film agencies will need to collect comprehensive data about their selection processes and the distribution figures of films to enable them to adjust their funding programs over time.

- 6.148 As previously discussed, a number of recent Australian scripts may have been produced before they were ready. Further, the FFC has provided finance on the basis of a distribution guarantee when distributors faced little risk. The Corporation made no assessment of quality; the distribution guarantee acted as a proxy for such assessment. The Australian Screen Directors Association, however, has argued that distributors are not good at picking successful projects at the script stage, but are much better at picking them when they are shown.¹³¹
- 6.149 In evidence, the FFC accepted that it needed to re-examine its funding decisions.¹³² At the time of drafting this report, the Corporation released draft investment guidelines for 2004-05 that include significant changes over the guidelines for 2003-04. The requirement for distribution guarantees is replaced by two categories.
- 6.150 The first category is the market attachment door, which is a more sophisticated version of requiring a distribution guarantee. A minimum of 30 per cent of the production must be guaranteed by genuine market place participants. This can include distribution advances and pre-sales. Further, the Corporation will only contribute a maximum of 40 per cent of the budget and give preference to projects that seek a lower proportion of finance. This approach requires the private sector to demonstrate its faith in the project by having more at stake.¹³³
- 6.151 The second category is the project evaluation door. Projects are evaluated on the following criteria:
- *creative potential*, which includes the creative team's track record and vision for the film, quality of script and proposed cast;
 - *market potential*, which includes the potential to secure distribution in Australia and overseas;
 - *audience potential*, which includes the target audience; and

130 *ibid.*

131 S. Williams, 'Script to let the good times roll', *The Australian*, 28 April 2004.

132 Mr B. Rosen, FFC, *Transcript of Evidence*, 5 November 2003, p. 5.

133 FFC, *Draft Investment Guidelines 2004-05*, pp. 2 and 5-8, viewed on 14 April 2004 at <http://www.ffc.gov.au>.

- *diversity*, which includes a balance of experienced and emerging creative principals, diversity of genre, and including films of artistic and creative merit that have limited commercial potential.

6.152 The Committee commends the FFC for recognising that its processes and outcomes could be improved and seeking to try different approaches. In light of the previous discussion in relation to scripts, the Committee's main comment is that the project evaluation door should place most weight on the script. As Bruce Beresford noted:

Certainly I think it would be more astute from every point of view, including box office, to pick scripts on their merit rather than on some half-baked interpretation of whether or not they fit into some trend. Trying to predict box office performance is invariably disastrous.¹³⁴

6.153 Instead of focussing on whether a script will deliver cultural or commercial benefits, the Committee suggests that selecting the best script has the best chance of securing both benefits. After ranking projects by script, the remaining Royal Commission requirements of capital, personnel and equipment, and distribution also appear to be relevant. These criteria are already listed in the FFC's guidelines and the Committee's comments are directed at their weightings.

6.154 If a project is a qualifying Australian film and scores highly on these factors, the Committee is confident that the film's likely economic and cultural returns will be maximised.

Recommendation 28

6.155 **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.**

6.156 In terms of the process generally, it is important that the Corporation collect data on these new approaches and assess their effectiveness. Although it is often clear if a funding system is effective or not (such as the

134 B. Beresford, 'How to choose a film script', *The Australian*, 8 September 2003.

Corporation's prior distribution link system), data collection and analysis will help the Corporation determine which aspects of the program are more effective and enable fine-tuning.

Recommendation 29

6.157 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.

6.158 In order to make the right selections, the FFC needs to have high quality proposals. In the federal sphere, this task is the responsibility of the AFC. In 2002-03, the Commission provided the following funds in relation to film development:

- \$249,000 for script workshops;
- \$132,000 for script and development assessment;
- \$565,000 for general development; and
- \$1.41 million for project development.¹³⁵

6.159 Individual grants often span two years. It appears many of these projects either received funding in the previous year or were to receive additional funding in 2003-04. The Commission supported 139 specific projects under the last two categories, making the projects' average grant \$14,000 in 2002-03. Given that grants often span two years, the average grant would be more than this amount.¹³⁶

6.160 The Committee recognises the Commission's contribution to accountability by listing all fund recipients in the back of its *Annual Report*.

6.161 The size of grants has been recently raised in the media. The Chief Executive of the FFC is credited with making the following argument:

Script development funding...is spread too thinly among too many screenwriters, a product of misplaced Aussie egalitarianism.

135 AFC, *Annual Report 2002-03*, pp. 98-105 and 110.

136 *ibid.*

More needs to be done to identify the more promising scripts at an early stage and support them.¹³⁷

- 6.162 This analysis is consistent with the earlier comments by Bruce Beresford. If a film's success and cultural contribution is built on its script, then the script development process might deliver more results if it produces fewer, better scripts than presently. For instance, a development process that produced a handful of top-quality scripts annually may be sufficient for the feature industry.

Recommendation 30

- 6.163 **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.**

Links to the games industry

- 6.164 As discussed earlier in the report, the Committee has not received evidence of an Australian film being converted to an electronic game. Such serial exploitation of intellectual property delivers significant economic benefits.
- 6.165 In evidence, the Committee heard that Australia is not particularly advanced in this field and that opportunities were often difficult to come by:

We look at the Australian industry and we ask: where is the IP development happening? I look around and I do not really see it happening except in a couple of cases—in the electronic game industry, for example. I am seeing a couple of companies that are seriously looking at developing and exploiting IP in this way, but it is an expensive thing to do because it is like a bet. In fact I was looking at a property that my son told me I should look at. He had read a book by an Australian author called *Across the Nightingale Floor*. I read this book and it is a sword and sorcery fantasy set in medieval Japan—perfect theme for this kind of exploitation. I thought: this is my big chance. I will rip in and put up my hand here. I did some research and I found the agent who was in

137 L. Barber, 'Box-office blues', *The Weekend Australian*, 7 September 2003.

London. The electronic IP rights for the book had been sold prior to publication—and this was a first novel from this particular author. Prior to publication they were sold to Universal in the States for \$US15 million.¹³⁸

- 6.166 As the GDAA has foreshadowed, the film agencies may eventually become more general entertainment agencies.¹³⁹ As noted in Chapter 5, however, the possible extent of convergence is unclear at this stage. Therefore, instead of recommending such an expansion of the film agencies' role in this report, the Committee would prefer to suggest that the film agencies explore, with the games industry, to what extent their programs can encourage Australian industry to serially exploit intellectual property.
- 6.167 One method of encouraging serial exploitation would be to include the broader use of intellectual property as a funding criterion for film development or film finance. Given that it is easier to modify a project during the earlier, planning phases, it would appear that the greatest opportunity to modify content to ensure it supports production in a range of platforms is in the development phase. The AFC, therefore, would have a key role in such a program.
- 6.168 The Committee appreciates that it has already argued that the best chances of delivering a successful film is to develop and finance the production of high quality scripts. The Committee is not stating that a lesser quality script with a cross-platform dimension should receive funding ahead of a high quality script without such an angle. Rather, the Committee's view is that cross-platform content should be encouraged at an early stage of development and that, of two films of otherwise equal merit, the project that has a cross-platform dimension should be preferred.

Recommendation 31

- 6.169 **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.**

138 Mr M. Hollands, Act3 Animation, *Transcript of Evidence*, 28 August 2003, p. 66.

139 GDAA, submission no. 54, p. 14.

A creative industry think tank

6.170 A number of organisations during this inquiry raised the need for the establishment of a think tank to collect information about the industries and use the data to promote appropriate policies. Austrade put this view,¹⁴⁰ as did the Queensland University of Technology:

We want to put before you the proposition that one of the ways of organising these very fragmented industry sectors that are characterised by small and medium sized enterprises and lots of microenterprises is to have an industry body with R&D capacity that can get ahead of trends, can sense trends, and produce data that is strategic and leading indicator in its nature, rather than only lag indicator in its nature. On the matter of size and scale, the answer is briefly that we do not know the size and scale of these industries in any comprehensive way. When we do know, it is too late: the industry has moved on. The point that I am making is about the way that lag versus leading indicator data might fit in with an industry body with the R&D capacity to lead with good evidence-based policy advocacy the fortunes of this sector.¹⁴¹

6.171 In Chapter 3, the Committee made recommendations to improve the data on the industries, initially through the AFC and FFC. The GDAA has suggested that these agencies may evolve to also serve the wider entertainment industries, including interactive media.¹⁴² The ultimate long term role of such a think tank will partially depend on how the film and other relevant agencies evolve and the extent to which they provide leading versus lag indicator data.

6.172 Although the Committee can see some benefits in establishing a creative industries' think tank at this stage, the practicalities of such a proposal need to be fully addressed. In the past, three factors have been identified as necessary in establishing an effective think tank:

- *leadership*, which means attracting someone who would be able to win the confidence of the sectors the think tank would wish to influence, that is, politicians, the bureaucracy, business and the unions;
- *high quality scholarship*, because an organisation's effectiveness and reputation would depend on the quality of its work; and

140 Austrade, submission no. 37, p. 7.

141 Professor S. Cunningham, Queensland University of Technology, *Transcript of Evidence*, 24 July 2003, p. 66.

142 GDAA, submission no. 54, p. 14.

- *funding*, to ensure the organisation's energies were directed to its core work, rather than revenue raising.¹⁴³
- 6.173 The Committee is confident that, within academia, industry and the public sector, sufficient skills exist to meet the first two criteria. The key issue is funding. A recent overview of think tanks in Australasia noted a typical annual budget for think tanks between \$100,000 and \$1 million. Because the think tank would be focussed on an industry sector, a realistic budget would be in the lower half of this range. Typical revenue sources for Australasian think tanks are government funding, corporate donations, membership subscriptions, publications, consultancies and project work.¹⁴⁴ Given that most benefits of such a think tank would accrue to the industry, the Committee is of the view that the industry must play a key role in establishing such a think tank. To increase its chances of success, governments could provide seed funding.
- 6.174 One of the key issues that these industries need to address is the prevalence of SMEs. Instead of these firms merging in the short term, an alternative would be to submit this issue for examination by a creative industry think tank.

Recommendation 32

- 6.175 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.

143 Mr I. Marsh, *An Australian Think Tank?*, p. 53, (1980) NSW University Press Ltd, Kensington.

144 Ms D. Stone 'Dynamics of Think Tank Development in Southeast Asia, Australia, New Zealand, and Papua New Guinea', pp. 401-402 in *Think Tanks and Civil Societies* edited by Mr J. McGann and Mr R. Weaver (2000) Transaction Publishers, New Brunswick.

Fostering production

R&D in the creative industries

Scale of R&D activity

- 6.176 During the inquiry, the Committee received evidence that local firms are undertaking a certain amount of R&D. Cutting Edge Post indicated it was developing five industry based products, which it was hoping to sell internationally.¹⁴⁵ Animal Logic stated that it had received a commercial return on software development and that ‘our R&D and internal software activities have given us a competitive edge’.¹⁴⁶
- 6.177 Overall, however, the Committee did not find evidence of uniform, consistent R&D across the industries. After noting the lead taken by firms such as Animal Logic, the University of Technology, Sydney advised the Committee:

The problem, however, is that the commercial companies involved are still caught in a “cottage industry” pattern of production: they tend to throw all energy into delivering an existing project in order to secure just enough surplus to tide them over until they win the next big commission. They have not managed the economies of scale that allow leeway in logistics, scheduling and budgeting so that they can apply a significant portion of staff and time to venturesome R&D. This is a common problem in an economy the size of Australia’s.¹⁴⁷

- 6.178 Once again, the SME structure of these industries has limited their ability to function in the market place. As stated in Chapter 5, the structure of these industries is largely a matter for them to determine. The Committee’s suggestion for how the industries might themselves address this issue is given in the discussion of an industry ‘think tank’ below.

R&D programs

- 6.179 The Government’s main R&D program that pays firms to undertake R&D is the R&D Start program run by AusIndustry. This program was outlined in the introduction to this chapter. Firms receive up to 50 per cent of their

145 Mr J. Lee, Cutting Edge Post, *Transcript of Evidence*, 25 July 2003, p. 23.

146 Mr Z. Nalbandian, Animal Logic, *Transcript of Evidence*, 4 September 2003, p. 2.

147 University of Technology, Sydney, submission no. 11, p. 3.

project costs, with payments typically ranging between \$100,000 and \$5 million.¹⁴⁸ Micro Forte, a games company, supported the program:

In my opinion, the most powerful single element of assistance has been the R&D Start Program. It has greatly helped companies such as Auran, Beam (now Atari – Melbourne House) and Micro Forte to build unique products and technologies, some of which have attracted the attention of the global industry. While these are my personal observations only, I can say that I believe these companies to have used this assistance well and have propelled their technology and themselves onto the world stage. Today these three companies alone account for over 1/3 of the entire game industry workforce.¹⁴⁹

6.180 The Australian Interactive Media Industry Association also credited the R&D Start program with enabling the development of commercially significant products.¹⁵⁰

6.181 Despite this success, however, the Committee did receive some comments that the R&D Start program's criteria were too limited. Animal Logic noted that, in many cases, its R&D was specific to an individual production and typically did not have a commercial use outside that production.¹⁵¹ The R&D Start program, however, requires applicants to demonstrate the level of national benefit a project will have, including the wider community and Australian industry.¹⁵² The Customer Information Booklet states:

Where possible, you should identify the benefits of your project that will spread beyond your company.¹⁵³

6.182 This requirement for external benefit is consistent with the economic rationale behind government support for R&D. The former Industry Commission explained the argument:

...the fundamental rationale for government intervention remains the "public good" characteristics of knowledge creation – its lack of appropriability [by the firm conducting the research] and wide

148 AusIndustry, *Grants for R&D Projects: Customer Information Booklet*, April 2004, viewed on 22 April 2004 at <http://www.ausindustry.gov.au>.

149 Micro Forte, submission no. 40, p. 1.

150 Mr J. Romney, Australian Interactive Media Industry Association, *Transcript of Evidence*, 5 September 2003, p. 23.

151 Animal Logic, submission no. 83, p. 4.

152 AusIndustry, *Grants for R&D Projects: Customer Information Booklet*, April 2004, p. 11, downloaded on 22 April 2004 from <http://www.ausindustry.gov.au>.

153 *ibid.*, p.13.

applicability – enabling spillovers to society from private investments in R&D.

Where spillovers exist – and empirical work suggests that they are widespread – there is the prospect that not enough R&D will be performed unless government steps in.¹⁵⁴

- 6.183 The Committee, therefore, is reluctant to recommend the removal of the external benefits criterion of the R&D Start program. This analysis may also be relevant to the new Commercial Ready program, which is due to incorporate the R&D Start program in 2006-07.
- 6.184 The GDAA suggested that games should be an identified category within the program to recognise the industry's work in developing innovative software.¹⁵⁵ It appears that grant recipients are determined by merit selection across all industries.¹⁵⁶ A wide merit selection process has the advantage of demonstrating to the community that the Government is seeking to obtain the maximum benefit for public funds. The Committee would not wish to recommend a particular industry fund or grouping because, if implemented, it may weaken the merit aspects of the current process.
- 6.185 The Committee also notes that the program's criteria already refer to innovation, so innovative software development could be supported by the program.
- 6.186 The Association also suggested that R&D deductions should be extended to the whole game software development process. Although taxation matters are outside the terms of reference for this inquiry, the Committee would refer back to the former Industry Commission's comments. If the benefits of a piece of research largely accrue to the firm doing the work, then, in the absence of significant spillover benefits, government assistance may not be warranted.

'Peaks and troughs' in the production cycle

- 6.187 During the inquiry, the Committee received evidence that the local film, animation and special effects industries regularly suffered from a 'boom and bust' cycle. This phenomenon was summarised by the Australian National University:

154 Industry Commission, *Research and Development*, 15 May 1995, report no. 44, v. 1, p. 10.

155 GDAA, submission no. 54, p. 17.

156 No mention is made of particular industry sectors in the *Customer Information Booklet*.

The cyclic nature of the industry means that often there is not enough work to go around; this tends to produce a “boom or bust” effect, where there is either so much work that companies cannot find enough qualified people, or where there is not enough work to keep people employed. This cycle is true of most industries but is exacerbated in the film, TV and commercial work by the project nature of the work. This cycle is the same all over the world but it is made more difficult in Australia due to the small size of the industry.¹⁵⁷

- 6.188 The firms involved in this review placed a high priority on this issue because the industry overall was experiencing a ‘small downturn’ during the inquiry. While local television production was largely steady, there had been a large drop in foreign television production and a small decrease in foreign feature production.¹⁵⁸
- 6.189 It appeared that local firms are usually able to expand production during a boom. Animal Logic noted the example of WETA Digital in New Zealand, which grew from one employee to 400 to complete the visual effects for *Lord of the Rings*.¹⁵⁹ Much of the Tasmanian industry recently grew out of the transfer of people with related skills such as copywriting and photography.¹⁶⁰
- 6.190 There are, however, a number of disadvantages from a downturn, in addition to reduced business. The first is that, due to low cash flow and work levels, firms are less able to keep up with the rapidly improving technologies.¹⁶¹ The second is that local firms are less likely to be able to offer staff work opportunities on large feature films, with the ultimate result that they leave for the US:

Sadly, we cannot offer many [graduates] an opportunity but, hopefully, if he presents an outstanding case to us, we will employ him either on an internship or a traineeship and we will develop his skills and bring him along to a level where we think he is very capable...

But ultimately his dream and his vision—and they all have it—is to work on a feature film; they want on the *Lord of the Rings*, they want to work on *Harry Potter*, they want to work on *The Matrix*. If

157 Australian National University, submission no. 71, p. 5.

158 Mr K. Dalton, AFC, *Transcript of Evidence*, 4 September 2003, p. 59.

159 Mr Z. Nalbandian, Animal Logic, *Transcript of Evidence*, 4 September 2003, p. 7.

160 Ms M. Reynolds, Screen Tasmania Advisory Board, *Transcript of Evidence*, 30 September 2003, p. 21.

161 Samson Productions, submission no. 31, p. 2.

those projects do not exist within our environment they are not going to stay with us; they go. In fact, I lost an animator three weeks ago who had been with me for eight years. He had worked on the Disney film for us and did a fantastic job, really enjoyed the experience and wanted to know where the next film was coming from. There was not one so he has now been employed by Los Angeles based company Digital Domain and he is working over there.¹⁶²

- 6.191 The industry has sought to address this volatility through a number of measures. The first is that it has sought work from overseas. Although this has given the industry some breathing space, the industry is generally of the view that many nations with low labour costs such as China will soon develop the required expertise and compete with Australia for this kind of work.¹⁶³
- 6.192 One activity that is seen as particularly valuable in providing extra work is hosting the production of television series. This sector holds a number of advantages, such as being stable, potentially long term and providing a steady stream of expenditure. The *Farscape* series shot 88 episodes in Australia with local expenditure of \$200 million. Currently, however, there is a lull in this category. The industry has suggested that the 12.5 per cent tax offset be extended to television series.¹⁶⁴ In the 2004 Budget, the Government announced it would extend the tax offset to high budget television series.
- 6.193 The Committee notes that the local industry has been active in seeking new work opportunities to give itself additional work to help overcome the peaks and troughs in the production cycle. The difficulties firms face in handling the volatility in production is partly due to the SME structure of the industry. If firms had greater scale, they would be better able to handle this problem. The Committee also notes that production is the more risky element of the industry. Much better returns can be found in the exploitation of intellectual property.
- 6.194 Given that industry structure is a significant factor in this issue, the industry needs to be a key player in its resolution. The Committee has previously suggested that the Government facilitate the creation of a think tank to give the industry a role in addressing issues such as industry

162 Mr S. Cooper, BEEPS, *Transcript of Evidence*, 25 July 2003, pp. 36-37.

163 Animal Logic, submission no. 102, p. 1 and Ms S. Greenshields, Screen Services Association of Victoria, *Transcript of Evidence*, 28 August 2003, p. 16.

164 Screen Producers Association of Australia, submission no. 33, p. 15.

structure. Volatility of production is a related matter and hence, could also be considered by the think tank.

Recommendation 33

6.195 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.

Co-production treaties

- 6.196 As noted earlier, co-production treaties allow a production to be considered a domestic production in two or more countries, allowing that production greater access to finance and distribution. Australia has six treaties (Canada, the UK, Italy, Germany, Ireland and Israel) and two memoranda of understanding that operate to similar effect (France and New Zealand).¹⁶⁵
- 6.197 Most firms in the industry took the view that co-production treaties assisted the industry and more should be done to take advantage of the present treaties and create new ones. A federal review of the program in 2000 found it was providing benefits for Australia.¹⁶⁶
- 6.198 Yoram Gross-EM.TV provided the Committee with an example of the benefits of co-productions. Out of nine animated projects in full production since 1998, three were co-productions made under official arrangements.¹⁶⁷
- 6.199 The submissions raised two main issues in relation to co-production treaties, which will be considered below.

Treaties with developing nations

6.200 Some firms saw particular value in having treaties with developing nations:

The environment in which all these companies operate is undergoing radical change and we can't pretend that our exchange rate and work practices will remain competitive to attract overseas runaway productions...

165 *ibid.*, p. 16.

166 *ibid.* and AusFILM International, submission no. 88, p. 19.

167 Yoram Gross-EM.TV, submission no. 63, p. 4.

The trend won't be reversed – instead it will accelerate with the collapse of traditional trade barriers, as our industry becomes more mobile and as digital production technologies make it far easier to produce films set almost anywhere in the world...

Over time, these new film making countries will build their own film industries as they further develop their own skills. But if we form partnerships with them now, especially within the Asian time zone, we will have a much better chance of supplying services to them – particularly our high-end skills – as their industries mature.¹⁶⁸

- 6.201 Asian cinema is rapidly developing and is now generating international recognition, securing three major prizes at Cannes in May 2004: Best Actor, Best Actress and the runner-up Grand Prize. Although Quentin Tarantino, known for his appreciation of Asian cinema, headed the Cannes jury, the creative development of cinema in Asia is generally acknowledged. As the ABC's website stated:

...neither commercially-driven Hollywood nor artsy Europe appear to be producing as much novel and varied cinematic work as Asia nowadays.¹⁶⁹

- 6.202 Austrade agreed that making contact now with developing nations would generate goodwill for the future:

One of the areas that we should be starting to think more actively about is Australia being a centre for film industry in this region. For example, when films such as *The Lord of the Rings* was made in New Zealand, there was a big drawdown on services from Australia... We can be a source of expertise and services directly from Australia for film industries in the surrounding area. In the future perhaps, we could look to places such as Indonesia, Singapore, Malaysia and other areas as the film industry expands. I think we will have to diversify into Asia. We have already seen strong interest from China. We are working with Vietnam, for example, at the moment. They are interested in training their television technologists in Australia... Those sorts of contacts for the future will be invaluable, because you build the personal relationships that later grow into business.¹⁷⁰

168 Ambience Entertainment et al, submission no. 100, p. 21.

169 ABC, *News Online*, 'Asian films raise Cannes temperatures', viewed on 24 May 2004 at <http://www.abc.net.au/news/indepth/featureitems/s1114057.htm>.

170 Mr L. Downey, Austrade, *Transcript of Evidence*, 8 October 2003, pp. 6-7.

- 6.203 The one organisation that expressed concern about entering into more co-production treaties was the Media Entertainment and Arts Alliance. Its submission listed a number of criteria that it argued should be met before entering into a co-production treaty. These included:
- the two countries have a strong interest in co-producing films together;
 - the two countries have comparable film industries and infrastructure;
 - a public sector entity such as the AFC to oversee and administer the program;
 - reciprocal access to national treatment;
 - comparable benefits for national treatment, so that each country gains by being offered national treatment by the partner country;
 - balance over time of financial and creative participation;
 - broadly comparable conditions of work; and
 - government support for production.
- 6.204 The Alliance's key concerns were that some nations do not provide national treatment for overseas partners' productions and that the scheme might only be used to relocate production to the country with the least favourable employment conditions. The Alliance concluded that the resources used to negotiate these treaties could be better used elsewhere.¹⁷¹
- 6.205 The value of entering into trade relationships with other nations is to take advantage of each other's different skills or needs. An argument that our partner countries in co-productions should be as similar to Australia as possible will reduce the benefits of the program. This argument was put to the Committee in evidence:

What will tend to happen is that you will do in Australia the things that Australia does best and cheapest relative to the rest. So if the post production industry is losing out, it is probably because they are not giving us a good enough deal. I have no sympathy for saying that is the reason not to do treaties. The treaties are required because, unless we help producers like me and others to access international finance, we will have less animation. It is as simple as that.¹⁷²

171 Media Entertainment and Arts Alliance, submission no. 59, p. 13.

172 Mr T. Brooke-Hunt, Pacific Vision, *Transcript of Evidence*, 5 September 2003, p. 36.

- 6.206 Therefore, the considerable differences between the film industries in Australia and Asia suggest considerable benefits in co-productions. Further, the Committee received evidence that Asian nations with low labour costs will soon gain expertise and standard of service similar to that in Australia.¹⁷³ Australia cannot prevent these nations developing this expertise. It can, however, build business by trading with these nations in the short to medium term and so build partnerships for the long term.
- 6.207 In relation to the extent to which other nations may not fully reciprocate in a co-production treaty, the Committee would not wish to recommend that Australia enter a commitment that is clearly not in its interests. The extent to which a treaty meets Australia's interests will depend on the circumstances in each case.
- 6.208 The Committee is of the view that additional co-production treaties with Asian nations should be pursued.

Arrangements with France

- 6.209 The second issue was that the memorandum of understanding with France is not operating effectively. This was a source of concern given that there had been a 'fruitful level of cooperation' between Australia and France in the past.¹⁷⁴
- 6.210 In a submission, Pacific Vision advised the Committee of the key points. The relevant French agency, the CNC, gives Australian co-productions lesser standing than treaty co-productions because they are made under a memorandum of understanding. Hence, Australian expenditure on these projects does not qualify as European and French/Australian co-productions are not eligible for national treatment in France.
- 6.211 Further, the memorandum requires an Australian contribution of 40-80 per cent, but the CNC's policies allow only a maximum of 33 per cent of creative points to be non-European. The CNC has advised its local producers that it will apply the 33 per cent maximum in deciding whether co-productions qualify as European content and CNC funding.
- 6.212 Pacific Vision suggested that, in the short term, the AFC could accept 33 per cent Australian content for French co-productions. In the long term, the Commission could persuade the CNC to change its interpretation of the memorandum or instead negotiate a full treaty.¹⁷⁵

173 Mr M. Hollands, Act3 Animation, *Transcript of Evidence*, 28 August 2003, p. 66.

174 Screen Producers Association of Australia, submission no. 33, p. 16.

175 Pacific Vision, submission no. 95, pp. 1-2.

- 6.213 The Committee agrees that, given the value of the partnership in the past, these implementation issues with the French memorandum of understanding should be addressed.

Recommendation 34

- 6.214 **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.**

Free trade agreement with the United States

- 6.215 A large number of submissions during the inquiry commented on the possible negative effect a free trade agreement might have on support for the industry.¹⁷⁶ A common argument was that ‘stand still’ provisions that kept current arrangements but prevented Australia implementing new measures in the future would be disadvantageous, given the potential growth in the digital sector.¹⁷⁷
- 6.216 The Committee received a small number of submissions that supported the liberalising of trade in these industries.¹⁷⁸
- 6.217 A draft of the agreement has since been released and, as noted in Chapter 4, is being considered by the Parliament’s Joint Standing Committee on Treaties. The Joint Committee is the primary parliamentary forum for the consideration of the agreement. The Senate has also established its own Select Committee on the Free Trade Agreement between Australia and the United States of America.
- 6.218 This report will limit its comments on the agreement to noting that it has no exemption for programs focussed on the distribution of Australian films. The current exemptions in the document relate to local content and

176 For example, see David Muir, submission no. 39, p. 5; the Media Entertainment and Arts Alliance, submission no. 59, p. 5 and Film Victoria, submission no. 85, p. 9.

177 AFC, submission no. 58, p. 23.

178 For example, see Allbank International, submission no. 90, p. 9.

production. A key message from this report is that much assistance to the industry in the past has been production based, whereas the best returns are in intellectual property, which includes distribution. The Committee's recommendation for an intellectual property strategy may not be completely in harmony with the free trade agreement as it currently stands.

The games industry's development strategy

6.219 On 8 October 2003, the GDAA released its *Game industry development strategy*. The strategy was prepared by the Allen Consulting Group. The main conclusion from the strategy was that the games industry was being constrained by two key factors:

- market distortions that make investment in other parts of the creative content industry more attractive (for example, film tax concessions); and
- imperfect capital markets due to information symmetries and lack of opportunity for risk diversification.¹⁷⁹

6.220 In relation to market distortions, the strategy recommended that the Government extend Division 10BA of the *Income Tax Assessment Act 1936* to the game industry.¹⁸⁰ Tax issues are outside the scope of this inquiry but the Committee could not ignore the apparent groundswell of concern expressed during the inquiry and urges the Government to consider measures that would enable greater equality between treatment of the games and the film industries.

Recommendation 35

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

6.222 In relation to capital markets, representatives of the games industry provided the Committee with evidence of their difficulties:

179 The Allen Consulting Group, *Game industry development strategy*, 8 October 2003, p. xiii.

180 *ibid.*, p. xv.

It is basically just the fact that there are no sophisticated investors out there. By that I mean that they are not familiar with the games industry. They do not know anything about it so they are not aware of what the risks are and therefore are not prepared to invest in it... It is something to just kick-start the investment community, because games are extremely profitable. They are even more profitable if you can finance them yourself. The fact that they are profitable is evidenced by the fact that publishers overseas are quite happy to give Australian developers the money to make these games. What we need to do is get investors and institutions in Australia familiar with the industry...¹⁸¹

- 6.223 The GDAA made similar comments to the Committee.¹⁸²
- 6.224 The industry's strategy proposes a game investment fund to remedy this situation. The fund would have two components, the first being an institutional program. The Government would put out to tender to fund managers two fund licences, with \$20 million in public funds attached to each fund. The private sector would contribute at least \$10 million in matching capital. The managers would invest the funds in the games industry with appropriate returns to investors, the Government and the managers.
- 6.225 The second component of the game investment fund relates to individual pooled funds. These would operate in a similar manner to the FLIC scheme. Investors would purchase an interest in an investment fund to spread their risk and would receive an immediate 100 per cent tax write-off for making the investment.¹⁸³
- 6.226 The game investment fund requires both additional funds and tax changes. As the Committee stated in its background paper to the inquiry, tax and additional public funds are outside the scope of the inquiry. However, the Committee notes the issues raised in evidence to the review and suggests this matter also be considered by Government.
- 6.227 The strategy argues that there is market failure through information asymmetry or that markets are incomplete. It appears that because local investors do not wish to learn about the commercial prospects of the games industry, they are not prepared to make offers of finance.
- 6.228 The Committee does not wish to make any determination on this analysis. One comment might be that games producers currently source finance in
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181 Mr G. Siegele, Ratbag Services, *Transcript of Evidence*, 30 September 2003, p. 10.

182 Mr A. Lancman, GDAA, *Transcript of Evidence*, 20 August 2003, p. 10.

183 The Allen Consulting Group, *Game industry development strategy*, 8 October 2003, pp. 32-39.

the world market. The Committee is, however, concerned at the apparent lack of appetite in the local investment community for investing in electronic games.

- 6.229 This lack of financial support is related to the industry's SME structure. If the firms were larger, they would have more financial reserves and would be more likely to be able to fund their own projects. One possibility for these firms is to merge, giving them further economies of scale.
- 6.230 The Committee notes the industry's comment that it needs to 'get investors and institutions in Australia familiar with the industry.'¹⁸⁴ This goal is reasonable. One approach might be to operate investment seminars so that the games industry can present its business models to the investment industry. To be effective, these seminars would need to be properly promoted and be attended by suitably senior personnel.

Recommendation 36

- 6.231 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.**

Extending the tax offset to television series

- 6.232 As noted earlier in this chapter, the Committee received a large number of submissions that recommended extending the refundable 12.5 per cent tax offset to the local production of overseas television series. The main benefit of this kind of work is that it tends to be longer term and more stable than feature films.
- 6.233 The most comprehensive case in support of extending the offset was submitted by AusFILM.¹⁸⁵ Large budget television series such as *Farscape* and *The Beastmaster* are typically produced in 12 month blocks. In addition, they have high production values. The production costs for these programs were \$2 million and \$900,000 per episode respectively.¹⁸⁶

184 Mr G. Siegele, Ratbag Services, *Transcript of Evidence*, 30 September 2003, p. 10.

185 AusFILM, appendix A of submission no. 88.

186 *ibid.*, p. 4.

6.234 AusFILM described to the Committee the history behind the exclusion of television series from the tax offset:

There is one glitch...in our offset in that at the time it was introduced the focus was on feature films and there had been something of a crisis as a result of two major feature films not receiving the tax benefits that had been expected for their investors. So there was a need for quite quick decision making and the focus and emphasis was on feature films, and the offset does not extend to series television.¹⁸⁷

6.235 AusFILM's submission also included an economic analysis of introducing the offset. The calculations were based on including:

- television series with a minimum program expenditure of \$1 million per episode and a minimum Australian expenditure of \$15 million per series per annum; and
- bundled telemovies and straight-to-video films where their combined Australian expenditure exceeds \$15 million.

6.236 The estimated economic effects of this proposal are:

- annual Australian expenditure on these production categories of between \$180 million and \$295 million;
- in terms of the federal budget, contributing a net addition of between \$25 million and \$41 million; and
- adding between \$139 million and \$228 million to Australian GDP.¹⁸⁸

6.237 As this proposal is a tax measure, however, it is outside the terms of reference for this inquiry. The Committee presents this background to assist the general debate and is pleased to note the announcement by the Minister for Communications, Information Technology and the Arts on 11 May 2004 that under an extension of the refundable film tax offset scheme, new incentives will be offered for high budget television productions made in Australia. The Committee is pleased that the scheme has been extended to include television series as an eligible format.¹⁸⁹

187 Mr I. Robertson, AusFILM International, *Transcript of Evidence*, 4 September 2003, p. 44.

188 AusFILM, appendix A of submission no. 88, p. 9.

189 The Hon D. Williams (Minister for Communications, Information Technology and the Arts), 2004, *New incentives for television production in Australia*, media release, Parliament House, Canberra, 11 May 2004.

- 6.238 Indeed, bearing in mind the representations made during the course of the inquiry about the need for Government support, the Committee is also pleased that the Minister concluded this announcement with the statement:

The extension of the film tax offset shows the Government is committed to building a local film production industry that can compete in a demanding global environment.¹⁹⁰

Alternative funding approaches and venture capital

- 6.239 Although funding was excluded from the terms of reference, the Committee did receive a number of suggestions, which it has agreed to include by way of information.
- 6.240 One proposal was to place a levy on cinema tickets and use the proceeds to fund additional industry programs.¹⁹¹ France uses this system. The Committee obtained evidence from a number of sources, however, that the overseas film industry and cinema operators would be concerned about increased costs for their businesses.¹⁹²
- 6.241 Mr Muir then suggested to the Committee that an alternative might be to levy a tax on video tape. Germany currently has such a tax, and the aim is to penalise those people who view films through video copies, rather than paying their cinema admission.¹⁹³
- 6.242 The ABC suggested that a licence fee could be imposed to fund public broadcasting. The benefit would be that public broadcasters' funding would become more stable, rather than being affected by the budget position.¹⁹⁴
- 6.243 A possible source of funding for the innovative, start up firms in these industries is venture capital. This type of finance forms an important role in the economy. Larger investors such as banks are reluctant to make relatively small investments such as \$1 million to \$5 million in high-risk firms. Such investments have high transaction costs due to the levels of research required to make an informed decision.¹⁹⁵

190 *ibid.*

191 Complete Post, submission no. 27, p. 4.

192 Mr D. Muir, private capacity, *Transcript of Evidence*, 28 August 2003, p. 54; and Mr K. Dalton, AFC, *Transcript of Evidence*, 4 September 2003, p. 60.

193 Mr D. Muir, private capacity, *Transcript of Evidence*, 28 August 2003, p. 55.

194 Ms S. Levy, ABC, *Transcript of Evidence*, 27 August 2003, p. 14.

195 Industry Commission, *Informal Equity Investment*, Information Paper, April 1997, pp. ix and 1.

- 6.244 Finance plays a key role in firms' ability to innovate. A survey of SMEs found that one of the key impediments to innovation is lack of finance. When firms were asked what assistance they needed to pursue an innovative idea, the most common response was finance. The most common source of finance for innovation was internal funds. Respondents were generally reluctant to give away equity as a means of obtaining finance for innovation.¹⁹⁶
- 6.245 The venture capital sector in Australia continues to grow, but a lack of maturity in this sector has probably worked against the growth industries examined in this inquiry. In the US, where the venture capital industry is most advanced, the two most important criteria for a venture capitalist in assessing a proposal are market attractiveness and product differentiation. An electronic game, for instance, would score highly on these factors because it services a global market and each game is easily differentiated from other games and other forms of entertainment.
- 6.246 In Australia, however, the top two criteria have historically been management capability and the product. An Australian venture capitalist, Christopher Golis, states that this has led to sub-optimal decision making:
- The lack of experience by the early Australian venture capitalists probably led to insufficient time being spent on assessing the growth prospects for the investment and how large the market is for the company's product or service.¹⁹⁷
- 6.247 Finally, it should be noted that only a small percentage of proposals, such as 2 per cent, are accepted by venture capitalists. This figure tends to understate the success rate because any one proposal may be seen by a number of financiers before being accepted, but the deal rate is still low.¹⁹⁸
- 6.248 In this environment, it is easy to see how small, innovative firms in these industries have found it difficult to attract finance, even though they are profitable businesses with growth potential. The Committee trusts that its recommendations that the Government hold a number of investment seminars for the games industry and extend Division 10BA of the *Income Tax Assessment Act 1936* will help address this problem.
- 6.249 Despite these suggestions, it appears that Australian start-ups do not have the same venture capital opportunities as their equivalents overseas, particularly in the US. An analysis of the venture capital industry was

196 Yellow Pages Business Index, *Special Innovation Report: Small and Medium Enterprises*, February 2001, pp. 23, 33 and 35.

197 G. Golis, *Enterprise and Venture Capital*, (1998) 3rd ed., Allen & Unwin, St Leonards, p. 219.

198 *ibid.*

outside the terms of reference of this inquiry and, therefore, the Committee did not pursue it in detail. It appears, however, that such an inquiry in relation to the creative industries could be pursued in the near future.

Recommendation 37

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

Promoting sales

Marketing Australian creative product abroad

Export market development grant scheme

6.251 As noted earlier in the chapter, this scheme reimburses firms for the expenses they generate in developing export markets. Eligible payments include marketing, visits, samples, and participating in trade fairs. AusFILM gave evidence to the Committee that firms found this assistance valuable:

The way that it works in this industry—and I suspect in other industries as well—is the more often we appear in their office space, the more of an impression we make. Obviously, the beauty of the EMDG is that it facilitates more of those trips.

...The last time I was over there I went into Intermedia; they had a script that they had not conceived of coming to Australia, but because I was there in their office, the script went into my hand and I prepared a budget for them. It has not been made here yet, but it put it in their mind. Since then I have received three or four more scripts. You cannot replace actually being there and meeting them in person. I think the EMDG is a great initiative and definitely makes a difference.¹⁹⁹

199 Ms J. Corden, AusFILM International, *Transcript of Evidence*, 4 September 2003, p. 50.

- 6.252 AusFILM also noted that, to be effective in sourcing business from the US, an Australian firm needs to be there twice a year.²⁰⁰
- 6.253 Despite this overall support, the Committee did receive evidence of a number of concerns about the scheme. The first was that the scheme has been capped at \$150 million since 1997. This has meant that payments have been reduced to meet this overall budget. After the first \$60,000, grants for 2001-02 were paid out at 32.84 cents in the dollar. The \$60,000 figure was reduced to \$50,000 in 2002-03.²⁰¹ Although the formal cap on the scheme is officially \$150,000, the effective cap in 2001-02 was approximately \$90,000.
- 6.254 The AusFILM submission noted that firms were caught out for 2001-02 because they had budgeted for a certain level of payment, which did not eventuate. Although the Committee did not have access to the promotional material relevant to that period, it should be noted that the current material refers to the pro-rata system:
- ...you should not plan or make financial commitments which assume you will receive any particular level of second tranche payment for which you provisionally qualify.²⁰²
- 6.255 The Committee is concerned that the official cap is becoming substantially different to the effective cap. The Committee is concerned that this program, which is highly regarded within the industry, is being undermined by insufficient funds to meet demand. One of the Government's targets is to double the number of exporters.²⁰³ In the view of the Committee, it is reasonable to support such a target by the expansion of funds for successful programs.

Recommendation 38

- 6.256 **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.**

200 Mr I. Robertson, AusFILM International, *ibid*.

201 Screen Services Association of Victoria, submission no. 28, p. 14 and AusFILM International, submission no. 88, p. 17.

202 Austrade, *Export Market Development Grants: In Brief*, December 2003, p. 3, viewed on 22 April 2004 at <http://www.austrade.gov.au/publications/AustradeEMDGInBrief.pdf>.

203 Austrade, submission no. 37, p. 17.

- 6.257 Another concern expressed to the Committee was that firms needed to have the money up front to undertake the export marketing and were later reimbursed. Light Knights Productions suggested that payments under the scheme be made before firms made the expenditure.²⁰⁴
- 6.258 One of the advantages of the current system is that, because they are spending their own money, firms are likely to only undertake the expenditure after a thorough analysis of its value. If the Government were to provide the money before the expenditure, the Committee is concerned that this initial assessment may be less rigorous. The Committee understands that some firms may have difficulty getting the funds together to finance their export marketing. However, the Committee, on balance, regards it as more important that the incentive remains for all firms to subject their export marketing expenditure to a thorough examination. The Committee, therefore, makes no recommendation for change on this issue.
- 6.259 The Committee received a number of submissions that suggested the time limit for the program should be extended for this industry.²⁰⁵ The arguments were presented by Animal Logic:

Every time a production entity is funded and formed, it brings a different group of people together to manage that mini business of its own. We have to market to the group who are the decision makers on each production. It may be a producer from here, a director from there and a production manager from over there who come together and who are in charge of a \$50 million or \$100 million budget and will make decisions as to where to spend that money. We have to be prepared to market to those people and travel and do what we have to do to build a relationship with them, which may be as a consequence of previous relationships but it is a unique one based on that production. We never get to a point where we have secured a contract with a studio or a producer and it is a revolving door contract that will just keep happening. We have to constantly be travelling and pursuing new relationships—based on old ones but under new entities—to be able to secure projects.²⁰⁶

204 Mr W. Tatters, Light Knights Productions, *Transcript of Evidence*, 24 July 2003, p. 29.

205 Fox Studios Australia, submission no. 75, p. 790; Animal Logic, submission no. 83, p. 4 and AusFILM International, submission no. 88, p. 17.

206 Mr Z. Nalbandian, Animal Logic, *Transcript of Evidence*, 4 September 2003, p. 9.

- 6.260 The argument of these firms is that the scheme is limited to seven years, whereas they are constantly dealing with new companies that require the exporters to build a new relationship. In response to a question on whether such assistance would conclude, Animal Logic responded that this would occur 'When a business is mature'.²⁰⁷
- 6.261 Although firms in these sectors face additional costs in developing new relationships, the Committee would be careful in recommending any open-ended extensions of time limits for the scheme. Determining a business's maturity is an objective and difficult exercise. Given the constantly changing nature of technology and consumers' needs, a business may never be mature. The Committee is more comfortable with the principle that firms will be more efficient and better at meeting consumers' needs in the long run if there is a clear date when they should stand on their own feet.
- 6.262 These firms, however, do have significantly higher costs in needing to redevelop relationships. The Committee, therefore, suggests that the scheme be adapted to the creative industries by amending the current seven year limit which applies to all firms under section 7 of the *Export Market Development Grants Act 1997*. The Committee suggests that this limit be extended to 12 years in the case of the industries examined in this inquiry. To support such a change, the grading of assistance from 50 per cent of eligible costs in year one to 5 per cent in year seven will also need to be amended.

Recommendation 39

- 6.263 **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.**
- 6.264 The final issue raised with the Committee about the scheme is that companies within a group might be active in many different markets, but the total grants for that group are capped. Animal Logic argued that it worked in different geographic markets and sold different products such

207 *ibid.*, p. 10.

as visual effects, computer animated feature films, film scanning and recording services, and software solutions.²⁰⁸

- 6.265 Under section 65 of the Act, a group's entitlement is capped at \$250,000. Each individual company's possible total grant is divided by the group's entitlement to give a percentage. This percentage is then applied to \$250,000 to give the maximum possible amount. The Committee understands that the individual grant maximum of \$150,000 would still apply.
- 6.266 The rationale for the group cap appears to be that firms within a group have the opportunity to exchange their expertise in developing exports. Accordingly, the group cap is not unreasonable and there does not appear to be a compelling case for its removal.

The Australian brand

- 6.267 The Committee heard evidence that Australian creative content was yet to develop a suitable, recognised brand in the international market:
- ...Australian games and films are still referred to as quirky. The Americans say, "This is quirky," because the Australians are producing content that they cannot fit into categories. It is called quirky and is often dismissed or marginalised for that reason. In these sectors the industry participants are often thinking very hard about "how to do a wine industry", which is about high levels of coordination, knowing when to collaborate and when to compete, so you collaborate more for overseas and compete within the local market.²⁰⁹
- 6.268 The Queensland University of Technology suggested that, although some industry members were aware of the benefits of using the wine industry as a model, the firms were too isolated from each other and undercapitalised to collaborate. Hence, the University's suggestion of a think tank or similar body. The Government would not run this body and 'crowd out' the private sector, but rather support its development.²¹⁰
- 6.269 Australia already has a positive international image. Austrade stated this included openness, friendly people and beaches.²¹¹ To some extent this could be derived from tourism marketing. Many Australian creative

208 Animal Logic, submission no. 83, p. 4.

209 Professor S. Cunningham, Queensland University of Technology, *Transcript of Evidence*, 24 July 2003, p. 69.

210 *ibid.*, pp. 68-69.

211 Mr L. Downey, Austrade, *Transcript of Evidence*, 8 October 2003, p. 7.

products, however, have taken advantage of and helped build these images.

- 6.270 The Government has recently announced that it will modify Australia's tourism brand from lifestyle to focus on Australian values such as optimism, mateship, inclusiveness and irreverence. As *The Australian* stated:

Australia will sell itself as having "Baz Lurhmann irreverence" rather than Castlemaine slapstick in a \$360 million tourism campaign that aims to rebrand the nation in the eyes of the world.²¹²

- 6.271 The quote recognises how the tourism industry and the creative industries examined in this inquiry have each helped mould the Australian brand. In a similar vein, while promoting a recent Australian film festival in China, actor Bryan Brown described Australian humour as, 'anti-authority, irreverent, dating back to when Australia was a penal colony'.²¹³
- 6.272 The values of brands in the marketplace are well known. They allow firms to charge a premium for their products due to the certainty the brand provides consumers. Further, marketing is made easier as each campaign builds on the last one.
- 6.273 The Committee recognises the value of these strategic insights and agrees that these industries should be assisted in developing the Australian brand internationally. Further, there are clearly synergies between these industries and the tourism sector. Any work on building a national brand in the creative industries should be done in consultation with tourism agencies and tourism industry groups.

Recommendation 40

- 6.274 **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.**

212 S. Emerson, 'Out with kitsch in Aussie pitch', *The Australian*, 19 May 2004.

213 C. Armitage, 'Larrikins on side with film pirates', *The Australian*, 28 April 2004.

6.275 As noted earlier in the chapter, governments around Australia have assisted the games industry in attending the Electronic Entertainment Expo (E3) in the US. The effectiveness of attending these meetings was demonstrated in submissions:

...I remember how, in the mid 90's Austrade assisted a fledgling Micro Forte and a very small Adelaide based company named Ratbag to gain international exposure by assisting them in attending the Electronic Entertainment Expo in Los Angeles. Without this assistance I would argue, that at least for Micro Forte, we would not be where we are today.²¹⁴

6.276 Micro Forte and Ratbag are now established local games companies.

6.277 In evidence to the Committee, there was universal support for attendance at such conferences, especially among state governments.²¹⁵ Although firms can obtain export market development grants to fund their individual participation, the Committee sees value in a unified Australian presence at these gatherings, especially in relation to building an Australian brand.

6.278 Another suggestion the Committee received in relation to promoting Australian film overseas is to support Australian film festivals, especially in Asia.²¹⁶ This work is already under way to some extent, with Bryan Brown and Sam Neill recently opening the ANZ Bank Australian Film Festival in Beijing.²¹⁷ The Committee sees this promotional work as another part of developing an Australian brand overseas.

Providing a uniform level of service across the industries

6.279 During the inquiry, a number of cases emerged where it appeared that the film industry or some other sector received a certain level of service in export promotion, whereas the games, animation and special effects industries received a lesser level of service.

6.280 One key example was AusFILM. This organisation promotes Australia as a film production location and receives in-kind support from Austrade. During the inquiry, the electronic games industry argued that there

214 Micro Forte, submission no. 40, p. 2.

215 For example, see Queensland Minister for Innovation and Information Economy, submission no. 36, p. 1 and Film Victoria, submission no. 85, p. 18.

216 Ambience Entertainment et al, submission no. 100, p. 22.

217 C. Armitage, 'Larrikins on side with film pirates', *The Australian*, 28 April 2004.

should be an AusGames office in the US to help attract games projects to Australia.²¹⁸

6.281 In evidence, Austrade stated that, 'In principle, I think we would consider it very closely.'²¹⁹ If this proposal was externally funded, Austrade commented, 'we would look very favourably on it.'²²⁰

6.282 A more streamlined approach might be to adapt current arrangements such as AusFILM. Austrade noted there were arguments either way for this proposal:

One of the difficulties of that may be the character of the main parties within AusFILM. The various state film offices are major parties within AusFILM and the membership tends to be focused on the film industry at the moment. So they would need to expand their charter and range of interests to accommodate that. It may actually be easier to set up a special games industry, but I suppose over the last 10 years we have seen massive convergence of the industry and a film and games industry starting to merge and overlap each other.

At the moment within the film industry, I suspect a lot of the membership becomes involved in aspects of gaming, particularly 3D animation and that sort of thing.²²¹

6.283 In evidence, the Committee suggested to AusFILM that it could take on this responsibility. AusFILM stated:

...many of our members have direct or indirect games experience and there are a number of Australian production companies that have produced internationally successful games. So, yes, there is a clear overlap and if the government thought it was appropriate for us to do more in this area we would certainly be very pleased to do so.²²²

6.284 The Committee appreciates there may be some implementation issues in expanding AusFILM's charter and membership. However, given the developing links between the games and film industries, and the opportunity to develop a brand for them, the Committee is of the view that this expansion should be commenced.

218 GDA, submission no. 54, p. 17 and Aganomis Services, submission no. 64, p. 3.

219 Mr L. Downey, Austrade, *Transcript of Evidence*, 8 October 2003, p. 4.

220 *ibid.*, p. 3.

221 *ibid.*, p. 4.

222 Mr I. Robertson, AusFILM International, *Transcript of Evidence*, 4 September 2003, p. 51.

Recommendation 41

- 6.285 **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.**
- 6.286 Another issue raised during the inquiry was Austrade's skill base. The industry identified two particular areas for attention: the digital content sector²²³ and the financing and selling of animation.²²⁴ Further, the Screen Services Association of Victoria suggested there was a general need for Austrade to ensure its Business Development Managers had the appropriate skills and knowledge for the industries examined in this inquiry.
- 6.287 Industry suggested that it might be easier for Austrade to work in more mainstream sectors such as wine, beef and information technology than these fragmented and creative industries.²²⁵
- 6.288 To its credit, Austrade recognised, as one of its future challenges, the need to train staff so they continue to recognise and capture opportunities for the sector.²²⁶

Recommendation 42

- 6.289 **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.**

Distribution of Australian creative intellectual property

- 6.290 The Committee received some suggestions how government programs might promote the distribution of Australian films. Although taxes and funding levels are outside the scope of the inquiry, they are presented for

223 Australian Interactive Media Industry Association, submission no. 42, p. 12.

224 Mr W. Tatters, Light Knights Productions, *Transcript of Evidence*, 24 July 2003, p. 26 and Mr T. Brooke-Hunt, Pacific Vision, *Transcript of Evidence*, 5 September 2003, p. 29.

225 Australian Interactive Media Industry Association, submission no. 42, p. 12 and Mr W. Tatters, Light Knights Productions, *Transcript of Evidence*, 24 July 2003, p. 26.

226 Austrade, submission no. 37, p. 8.

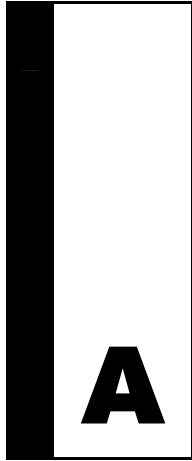
discussion in light of the importance of distribution to unlocking the gains from intellectual property.

- 6.291 A number of Sydney-based production and post-production companies suggested that any new tax incentives should relate to distribution, in particular linking local and regional production to international distribution.²²⁷
- 6.292 The Committee also received a suggestion that, if a levy of \$10 was placed on each person in Australia, the funds could be used to fund film production and, in return, each individual would receive a book of ten tickets to give them free entry to these films.²²⁸
- 6.293 Although this proposal makes it easier for Australians to see local films, it suffers from the lack of incentive for producers to ensure that a significant number of people see the films they produce.

Bob Baldwin MP
Chair

227 Ambience Entertainment et al, submission no. 100, p. 20.

228 Ms Tamsin Rawady, submission no. 1, p. 1.



Appendix A – List of submissions

Number	From
1	Ms Tamsin Rawady
2	Film and Television Institute of WA Inc
3	Producers' and Directors' Guild of Victoria
4	QANTM Pty Ltd
5	Northern Territory Government
6	Government of Western Australia
7	Central City Studios Holdings Pty Ltd
8	Mr Rupert Myer
9	Australian Digital Alliance
10	Victorian College of the Arts
11	Professor Ross Gibson
12	Film Illawarra
13	BigKidz Entertainment Pty Ltd
14	Creative Industries Research and Applications Centre, Queensland University of Technology
15	Mrs D. M. Foster
16	Digital Domain
17	Queensland College of Art, Griffith University
18	Australian Film Television and Radio School

- 19 Canberra Institute of Technology and the Academy of Interactive Entertainment
- 20 Cutting Edge Post Pty Ltd
- 21 Bond University
- 22 Australian Broadcasting Corporation (ABC)
- 23 QPIX Ltd
- 24 Nectarine
- 25 QDox Inc (Queensland Documentary Association)
- 26 Intran Australia Pty Ltd
- 27 CONFIDENTIAL
- 28 Screen Services Association of Victoria
- 29 Australian Children's Television Foundation
- 30 Media Entertainment Systems Architects (MESA)
- 31 Ms Sue Milliken, Samson Productions Pty Ltd
- 32 Dr Brian Regan, University of Newcastle
- 33 Screen Producers Association of Australia (SPAA)
- 34 BEEPS Pty Ltd
- 35 Mr Daniel Torre and Mrs Lienors Torre
- 36 Queensland Government (Department of Innovation and Information Economy)
- 37 Australian Trade Commission (Austrade)
- 38 CONFIDENTIAL
- 39 Mr David Muir
- 40 Micro Forte Pty Ltd
- 41 Bungarra Software Pty Ltd
- 42 Australian Interactive Media Industry Association
- 43 Academy of Interactive Entertainment Ltd (AIE)
- 44 IT Skills Hub Pty Ltd
- 45 SPAA/ASDC Documentary Council (SADC)

46	Create Australia
47	Pacific Film and Television Commission
47.1	Pacific Film and Television Commission (supplementary submission)
48	Light Knights Productions
49	Faculty of Arts, Deakin University
50	FIBRE (Film Industry Broadband Resources Enterprise) Pty Ltd
51	Pacific Vision Pty Ltd
52	Australian Screen Editors Guild (ASE)
53	Gold Coast City Council
54	Game Developers' Association of Australia
55	RMIT University
56	New South Wales Film and Television Office
57	Allanbank International Pty Ltd
58	Australian Film Commission
58.1	Australian Film Commission (supplementary submission)
59	Media Entertainment and Arts Alliance
60	Australian Subscription Television and Radio Association (ASTRA)
61	NSW Department of State and Regional Development
62	Indigenous Screen Australia
63	Yoram Gross-EM.TV Pty Ltd
64	Agonomis Services
65	National Institute of Dramatic Art (NIDA)
66	Special Broadcasting Service (SBS)
67	Interactive Entertainment Association of Australia
68	Brisbane Film City
69	JMC Academy
70	Film Finance Corporation Australia Limited
71	Australian National University

- 72 Department of Communications, Information Technology and the Arts
- 73 Tasmanian Government
- 74 Australian Screen Directors Association and Australian Writers' Guild
- 75 Fox Studios Australia
- 76 Faculty of Informatics and Communication-Central Queensland University
- 77 ACT Government
- 78 Queensland Game Developers Cluster
- 79 Mr Marco Sinigaglia
- 80 Ms Caroline Frewin
- 81 JBM - Judy Brown Management
- 82 Film Australia
- 83 Animal Logic
- 84 Australia Council for the Arts
- 85 Film Victoria
- 86 Cutting Edge Post Pty Ltd- Gold Coast Employees
- 87 Mr Bob Booker
- 88 AusFILM International Inc
- 89 Pacific Film and Television Commission (supplementary submission)
- 90 Allanbank International Pty Ltd (supplementary submission)
- 91 Victorian College of the Arts (supplementary submission)
- 92 Film Finance Corporation Australia Ltd and Australian Film Commission
- 93 Allanbank International Pty Ltd (supplementary submission)
- 94 Government of South Australia
- 94.1 Government of South Australia (supplementary submission)
- 95 Pacific Vision Pty Ltd (Supplementary submission)

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| 96 | Dr Alan McKee, Catherine Lumby and Kath Albury |
| 97 | Lizard Edutainment Pty Ltd |
| 98 | AusFILM International Inc (supplementary submission) |
| 99 | Game Developers' Association of Australia |
| 100 | Ambience Entertainment, Atlab Australia, The Omnilab Group,
Panavision Asia Pacific and Spectrum Films |
| 101 | Allanbank International Pty Ltd |
| 102 | Animal Logic (supplementary submission) |
| 103 | Australian Film Commission |
| 104 | Animal Logic (supplementary submission) |



Appendix B – List of exhibits

No.	Provided By	Exhibit Title
1	Australian Film Commission	Australian Films-2002 Box Office Share
2	Australian Film Commission	National Survey of Feature Film and TV Drama Production 2001/02
3	Department of Communications, Information Technology and the Arts	Australian Bureau of Statistics, Film and Video Production and Distribution, Australia. Catalogue No. (8679.0, 2001)
4	Department of Communications, Information Technology and the Arts	Film Tax Offset: An incentive for film production in Australia. An Australian Government Initiative
5	Department of Communications, Information Technology and the Arts	Creative Industries Cluster Study-Stage Three: Current DOCITA Projects, 2003
6	National Office for the Information Economy and DOCITA	Creative Industries Cluster Study: Stage One Report, 2002
7	Department of Communications, Information Technology and the Arts, The National Office for the Information Economy - Broadband Advisory Group	Australia's Broadband Connectivity, The Broadband Advisory Group's Report to Government, Commonwealth of Australia, 2003

No.	Provided By	Exhibit Title
8	Commonwealth Department of Communications, Information Technology and the Arts	Enabling our Future: The ICT Framework for the Future Report. A Framework for the information and communications technology industry The report of the Framework for the Future Steering Committee to the Minister for Communications, Information Technology and the Arts, April 2003
9	Department of Communications, Information Technology and the Arts	<i>Visual Effects Industry: no place for the faint hearted</i> , authored by Fiona Williams, <i>Encore</i> , vol 21, Issue 1, February 2003, pp.21-22
10	Australian Film Commission	<i>Get the Picture, Essential data on Australian film, television, video and interactive media</i> , 6 th edition, January 2003
11	Australian Film Commission	<i>Foreign Film and Television Drama Production in Australia: A Research Report</i> , June 2002
12	CONFIDENTIAL	
13	Australian Film Commission	Extract from Get the Picture Online, Focus on Animation: Animated Drama, May 2003
14	DOCITA	Industry Training: CARP Training Directory: Courses offered by tertiary institutions, the vocational sector and accredited private providers
15	Invest Australia	Computer Games, leaflet
16	Australian Film Commission: Mr Kim Dalton	Australian Film Commission-Printout of PowerPoint Presentation to the Committee
17	Film Illawarra	Film Illawarra-A location Guide (related to submission no. 12)

No.	Provided By	Exhibit Title
18	Creative Industries Research and Applications Centre, Queensland University of Technology	Extracts from Creative digital industries in Australia: innovation in quantitative and qualitative mapping (related to submission no. 14) (Creative Industries Research and Applications Centre- National Office of the Information Economy – Department of Communications, Information Technology and the Arts-Australian Film Commission ARC Linkage application 2003 round)
19	Creative Industries Research and Applications Centre, Queensland University of Technology	<i>Creative Industries - from Blue Poles to fat pipes</i> . Authored by John Hartley, and Stuart Cunningham (related to submission no. 14)
20	Creative Industries Research and Applications Centre, Queensland University of Technology	<i>Culture, Services, Knowledge or Is Content King, or are we just drama queens?</i> Authored by Stuart Cunningham (related to submission no. 14)
21	Creative Industries Research and Applications Centre, Queensland University of Technology	Queensland University of Technology: CRC Company Background (related to submission no. 14)
22	Creative Industries Research and Applications Centre, Queensland University of Technology	<i>Tales from the Frontier</i> , Marion Jacka report on Broadband in Australia (related to submission no. 14)
23	Bond University	Company Profile/Case Study (related to submission no. 21)
24	Australian Broadcasting Corporation (ABC)	ABC Development: Program Proposal Application Form (related to submission no. 22)
25	Intran Australia Pty Ltd	Covering letter (related to submission no. 26)
26	CONFIDENTIAL	
27	CONFIDENTIAL	

No.	Provided By	Exhibit Title
28	CONFIDENTIAL	
29	IT Skills Hub Pty Ltd	About the IT Skills Hub - 2003
30	SPAA/ASDA Documentary Council	SADC Submission to the Australian Broadcasting Authority's Investigation into Expenditure Requirement for Pay TV Documentary Channels, 2000 (related to submission no. 45)
31	SPAA/ASDA Documentary Council	Submission to the Australian Broadcasting Authority's Review of Australian Content on Subscription Television, February 2003
32	Game Developers' Association of Australia	Attachment 1 - GDAA List of Members (as at end June 2003)
33	Game Developers' Association of Australia	Attachment 2: Australian Game Industry Profile: E3 Marketing Booklet, June 2003
34	Mr Daniel Torre and Ms Lienors Torre	Covering Letter (related to submission no. 35)
35	RMIT University	Covering Letter (related to submission no. 55)
36	Australian Film Commission	Covering Letter (related to submission no. 58)
37	Australian Film Commission	Review of Australian Content on Subscription Television: Submission to the Australian Broadcasting Authority, February 2003 (related to submission no. 58)
38	Australian Film Commission	<i>Filling the Pipe: Stimulating Canada's Broadband Content Industry through R&D</i> , May 2001. Report on the National Roundtables on Advanced Broadband Content. Produced by Delvinia in association with Canadian Heritage and Industry Canada (related to submission no. 58)

No.	Provided By	Exhibit Title
39	Australian Film Commission	Screen Actors Guild (SAG) and Media Entertainment & Arts Alliance (MEAA) Agreement with respect to SAG Global Rule 1 (related to submission no. 59)
40	Australian Film Commission	Submission by Media Entertainment and Arts Alliance to the Senate Community Affairs References Committee Inquiry into Poverty in Australia, March 2003 (related to submission no. 59)
41	Australian Film Commission	Old Age and the Arts (related to submission no. 59)
42	Agonomis Services	Admission, admissions to institution are made through the Joint Entrance Examination (JEE)(related to submission no. 64)
43	Indigenous Screen Australia	National Indigenous Broadcasting Service (related to submission no. 62)
44	Indigenous Screen Australia	The Blackbook Directory 2000 (related to submission no. 62)
45	Allanbank International Pty Ltd	A background paper with emphasis on current problems, June 2003 (related to submission no. 57)
46	Allanbank International Pty Ltd	The Development of an Australian Film Industry, June 2003 (related to submission no. 57)
47	Allanbank International Pty Ltd	Role and Function of the independent film producer, June 2003 (related to submission no. 57)
48	Allanbank International Pty Ltd	The changing nature of the film industry, June 2003 (related to submission no. 57)
49	Yoram Gross-EM.TV Pty Ltd	'Maxine-5' Synopsis booklet and DVD pilot episode (related to submission no. 63)
50	Yoram Gross-EM.TV Pty Ltd	Video tape: Show Reel of Yoram Gross EM.TV productions (related to submission no. 63)

No.	Provided By	Exhibit Title
51	Department of Communications, Information Technology and the Arts	Education, Science & Training: Online Curriculum Content for Australian Schools (related to submission no. 72)
52	Department of Communications, Information Technology and the Arts	Leveraging Australia's industry capabilities to maximise investment opportunities, particularly for the Games Industry. Information provided by Invest Australia, June 2003 (related to submission no. 72)
53	Australian Film Commission	Screen Sound Australia: National Screen and Sound Archive Video (related to submission no. 58)
54	Film Australia	National Interest Program, March 2003 (related to submission no. 82)
55	Film Australia	<i>Threat of unreality TV</i> , The Guardian newspaper article, 22 October 2002 (related to submission no. 82)
56	Film Australia	Submission to the Australian Broadcasting Authority Review of Australian Content on Subscription Television February 2003 (related to submission no. 82)
57	Film Australia	Film Australia's Outback: The Outback Real and Imagined (related to submission no. 82)
58	Film Australia	Video: Fortress Australia: The Secret Bid for the Atomic Bomb (related to submission no. 82)
59	Film Australia	Video: Bush Mechanics: The Series (related to submission no. 82)
60	Film Australia	Video: Facing the Music (related to submission no. 82)
61	Film Australia	Video: Wildness (related to submission no. 82)
62	Film Australia	Video: Ted's Evolution (related to submission no. 82)

No.	Provided By	Exhibit Title
63	Film Australia	Video: Plumpton High Babies: A year in the lives of teenage mothers trying to raise their babies and stay at school (related to submission no. 82)
64	Film Australia	Video: Welcome to the Waks Family (related to submission no. 82)
65	Film Australia	Video: MABO: Life of an Island Man (related to submission no. 82)
66	Film Australia	East Timor: Birth of a Nation (related to submission no. 82)
67	Film Australia	Video: Slow Food Revolution (related to submission no. 82)
68	Film Australia	Video: Human Contraptions (related to submission no. 82)
69	Cutting Edge Post Pty Ltd	Video: Cutting Edge Post: July Showreel 2003
70	Victorian College of the Art, Griffith University	Video: QCA Graduates 2002
71	Cutting Edge Post Pty Ltd	Cutting Edge-Gold Coast Expands
72	Cutting Edge Post Pty Ltd	Cutting edge -VFX
73	Cutting Edge Post Pty Ltd	Australia for Post Production? No Worries
74	Gold Coast City Council	<i>Transformation through Innovation: Gold Coast Innovation City. A report by KPMG and University of Queensland, April 2003</i>
75	Gold Coast City Council	Have it all in Gold Coast City, 2003, brochure
76	Gold Coast City Council	John Cox's Creature Workshop Pty Ltd, Australia – 2003
77	Queensland College of Art, Griffith University	Animation course description by Kevin Roper, Animation convenor QCA
78	Queensland College of Art, Griffith University	DVD 6: Summary Clips All Films, 2003 'Grandfathers and Revolutions Clip'

No.	Provided By	Exhibit Title
79	Queensland College of Art, Griffith University	CD: Back O'Bourke Bob-Outback hero! Commemorative edition 2002
80	Department of Communications Information Technology and the Arts	<i>The 2003 AusFILM Guide: To Feature Film, TV & TVC Production in Australia.</i> Produced for AusFILM, September 2002
81	Mr James Mitchell	Attachment: Hansard Report: Income Tax Assessment Amendment Bill 1981: Second Reading, Parlinfo Web, Parliament of Australia Website
82	The Academy of Interactive Entertainment	The Academy of Interactive Entertainment CD
83	The Academy of Interactive Entertainment	3D Computer Graphics & Computer Game Development: 2004 Education and Training
84	The Academy of Interactive Entertainment	The Academy of Interactive Entertainment: Excellence in Innovation
85	The Academy of Interactive Entertainment	<i>The Academy of Interactive Entertainment: Media Coverage.</i> GDA Newsletter, Issue 4, March 2003 Writer/Editor Tim Richards
86	Allanbank Communications International	<i>Media 21: Transforming Singapore into a Global Media City.</i> Published by Media Development Authority of Singapore (MDA) (related to submission no. 90)
87	Mr James Mitchell	Newspaper Article: <i>A balloon about to Pop-</i> August 16, 2003 Sydney Morning Herald
88	Mr James Mitchell	'Guess who's coming to live here' August 20, 2003 -Sydney Morning Herald Newspaper Article http://www.smh.com.au/articles/2003/08/1/1061261151575.htm
89	Mr James Mitchell	'The Asians are coming'-23 August 2002, The Guardian Newspaper Article. Authored by Shekhar Kapur

No.	Provided By	Exhibit Title
90	Mr James Mitchell	Newspaper Article: ' <i>Simple Simon's guide to film funds</i> '-1 August 2003, Financial Review http://www.afr.com/articles/2003/07/31/1059480480120.html
91	Government of South Australia	South Australian Film Corporation Industry Survey 2001
92	Melodrama Pictures Pty Ltd – Mr Adam Elliot	Adam Elliot Biography: Writer Director Animator. Authored by Melanie Coombes, March 2003
93	Mr Adam Elliot	Video: Harvie Krumpet: Narrated by Geoffrey Rush
94	Victorian College of the Arts	Press Review Tape
95	Provided by Victorian College of the Arts	Press Review Tape: 2001 Graduate Productions
96	Indigenous Screen Australia	Video: Dreaming In Motion Video
97	Indigenous Screen Australia	Video: Beneath Clouds
98	Indigenous Screen Australia	Video: One Night The Moon
99	IT Skills Hub	Powerpoint Printout of Presentation presented to Committee by Mr Brian Donovan on 28 August 2003
100	IT Skills Hub	Digital Interactive Media Internet Page: Postgraduate Study University of Brighton UK MSc in Digital Television Management and Production http://www.brighton.ac.uk/interactive/
101	Interactive Entertainment Association of Australia	Powerpoint Printout of Presentation presented to Committee on 27 August 2003 by Ron Curry and Beverly Jenkin
102	State of Victoria Multimedia Victoria	Brochures: Game Plan: Game On. A blueprint for growing the Victorian Computer Game Industry , February 2003

No.	Provided By	Exhibit Title
103	Animal Logic Pty Ltd	Animal Logic Statistical Data, 2003
104	Australian Broadcasting Corporation	Selection of Brochures
105	Australian Broadcasting Corporation	ABC Triennial Funding Submission Summary 2003-06
106	YoramGross-EM.TV	YoramGross-EM.TV Corporate Profile
107	AusFILM International Inc	The Case for Extension of the 12.5% Refundable Tax Offset to Large Budget Television Series and Bundles Non-Theatrical Films
108	AusFILM International	Local Government Filming Protocol (NSW Department of Local Government, September 2000) (related to submission no. 98)
109	AusFILM International Inc	City of Port Phillip Film Policy, Attachment 1 (related to submission no. 98)
110	AusFILM International Inc	<i>Federation Square: Filming and Photography Guidelines</i> , August 2002, Federation Square Management (related to submission no. 98)
111	AusFILM International Inc	<i>Museum Victoria: Filming and Photography Guidelines</i> (related to submission no. 98). Incorporating Immigration Museum, Melbourne Museum, Moreland Annexe, Scienceworks and Melbourne Planetarium. Authored by Museum Victoria
112	AusFILM International Inc	<i>Final Destination, Comparison of Film Tax Incentives Australia and Canada</i> . Summary Report for the Department of Information Technology and the Arts, June 2003 (Prepared by Money Penny Business and Taxation Services Pty Ltd) (related to submission no. 98)

No.	Provided By	Exhibit Title
113	Ratbag Services Pty Ltd	Top Ten Industry Facts, prepared by Interactive Digital Software Association
114	Ratbag Services Pty Ltd	Essential Facts about the Computer and Video Game Industry, 2002. Authored by Interactive Digital Software Association
115	Game Developers' Association of Australia	Game industry development strategy: Proposal for Government Action-Report prepared on behalf of the Game Developers' Association of Australia, October 2003. Authored by The Allen Consulting Group
116	Australian Film Commission and Australian Film Finance Corporation Ltd	Response to the Productivity Commission Draft Report: Review of Broadcasting Legislation (December 1999)
117	Australian Film Commission	Submission to the Productivity Commission Inquiry into Broadcasting: Australian Key Centre for Cultural and Media Policy (December 1999). Authored by Dr Allan Brown, Professor Stuart Cunningham, Professor Tom O'Regan and Ms Cathy Robinson
118	Australian Film Commission	AFC Submission to the Department of Foreign Affairs and Trade: Proposed Free Trade Agreement between the United States of America and Australia
119	PricewaterhouseCoopers	<i>Australian Entertainment and Media Outlook: 2003-2007</i>
120	National Office for the Information Economy	<i>Research and Innovation Systems in the Production of Digital Content and Applications.</i> Report for the National Office for the Information Economy. Authored by QUT CIRAC and Cultler & Company, Commonwealth of Australia, September 2003

No.	Provided By	Exhibit Title
121	Allanbank International Pty Ltd	<i>A Reflection on the Domination of the Film Industry: A historical and industrial perspective.</i> Authored by Finola Kerrigan and Nigel Culkin



Appendix C – Public hearings and witnesses

Organisations and persons are listed in alphabetical order under each public hearing day.

Thursday, 24 July 2003 – Queensland

Brisbane Film City

Ms Trish Lake (Member)

Mr Thom Saunders (Member)

Creative Industries Research and Applications Centre, Queensland University of Technology [CIRAC/QUT]

Professor Stuart Cunningham (Director, Creative Industries Faculty)

Professor John Hartley (Dean, Creative Industries Faculty)

Professor Jeffrey Jones (Director, Applications, Creative Industries Faculty)

Krome Studios Pty Ltd

Mr Robert Walsh (Chief Executive Officer)

Light Knights Productions

Mr Wes Tatters (Producer)

Pacific Film and Television Commission

Ms Ursula Cleary (Development Manager)

Mr John Giles (Business Consultant)

Mr Henry Tefay (Head of Production)

Queensland College of Art, Griffith University

Professor Mostyn Bramley-Moore (Director)

Mr Ian Lang (Senior Lecturer, Film and Television)

Mr David Mayocchi (College Manager)

Queensland Games Developers Cluster

Mr Shainiel Deo (Chair)

Friday, 25 July 2003 – Queensland

BEEPS Pty Ltd

Mr Stephen Cooper (Managing Director)

Ms Elle Croxford (Marketing Consultant)

Bond University

Professor Emeritus Bruce Molloy (Professor and Director, Centre for Film, Television and Screen Based Media)

Dr Clarence Tan (Associate Dean, School of Information Technology)

Cutting Edge Post

Mr John Lee (CEO)

Gold Coast City Council

Mr John Giles (Consultant)

Councillor Jan Grew

Mr Grayson Perry (Manager, Economic Development)

Wednesday, 20 August 2003 – Canberra**Game Developers Association of Australia**

Mr Adam Lancman (President)

Ms Evelyn Richardson (Executive Director)

Wednesday, 27 August 2003 – Melbourne**Australian Broadcasting Corporation**

Mr Trevor Burns (Head, Government and Parliamentary Relations)

Ms Sandra Levy (Director, ABC Television)

Ms Lynley Marshall (Director, New Media and Digital Services)

Australian Centre for the Moving Image

Mr John Smithies (Chief Executive Officer)

Australian Children's Television Foundation

Mrs Jenny Buckland (Chief Executive Officer)

Mrs Bernadette O'Mahony (Head of Development and Production)

BigKidz Entertainment Pty Ltd

Miss Ann-Marie Denham (Director/Animator)

Mr Jeffrey Reyes (Co-Director)

Interactive Entertainment Association of Australia

Mr Ron Curry (Company Director)

Ms Beverly Jenkin (Chief Executive Officer)

Thursday, 28 August 2003 – Melbourne**Act3 Animation**

Mr Michael Hollands (Company Owner and Creative Director)

Film Victoria

Ms Sandra Sdraulig (Chief Executive Officer)

IT Skills Hub

Mr Brian Donovan (Chief Executive Officer)

Mr Charles Dougall (Associate)

Multimedia Victoria

Mr Mark Bishop (Manager, ICT Industry Development, Multimedia Victoria, Department of Infrastructure, Victorian Government)

Ms Debbie Kiper (Manager, Policy and Regional Access, Multimedia Victoria, Department of Infrastructure, Victorian Government)

Mr Randall Straw (Executive Director, Multimedia Victoria, Department of Infrastructure, Victorian Government)

Private Capacity

Mr David Muir

RMIT University

Professor Peter Smith (Head of School, School of Creative Media)

Ms Deb Verhoeven (Senior Lecturer and Manager, AFI Research Centre)

Screen Services Association of Victoria

Mr John Fleming (Vice President)

Ms Suzanne Greenshields (President)

Mr Hugh Maclaren (Committee Member)

Mrs Kerri Schwarze (Committee Member)

Victorian College of the Arts

Mr Adam Elliot (Animator, Writer, Director of Melodrama Pictures Pty Ltd)

Professor Andrea Hull (Director)

Mr David Price (Lecturer, Visual Effects and Post Production Coordinator, School of Film and Television)

Mr Richard Roberts (Head, School of Production)

Professor Jennifer Sabine (Head, School of Film and Television)

Mrs Andrea Spark Vrazofski (Lecturer in Animation)

Thursday, 4 September 2003 – Sydney

Animal Logic Pty Ltd

Mr Zareh Nalbandian (Managing Director)

Mr Douglas Spisich (Chief Financial Officer)

AusFILM International Incorporated

Ms Jane Corden (Deputy Chairperson, AusFilm Board)

Mr Ian Robertson (Chairperson)

Australian Film Commission

Mr Kim Dalton (Chief Executive)

Australian Film Television and Radio School

Mr Derek Allsop (Head, Technology and Infrastructure)

Mr Malcolm Long (Director)

Film Industry Broadband Resources Enterprise Pty Ltd (FIBRE)

Mr Dominic Case (Chair)

Ms Judi Tucker (Executive Director)

New South Wales Film and Television Office

Mr Garry Brennan (Manager, Production Liaison)

Ms Jane Smith (Chief Executive)

Friday, 5 September 2003 – Sydney

Australian Interactive Media Industry Association

Ms Sandra Davey (President)

Mr Jason Romney (Chair, iTV Taskforce)

Ms Louise Van Rooyen (Executive Director)

Indigenous Screen Australia

Ms Janice Forrester (Consultant)

Ms Rachel Perkins (Treasurer)

Pacific Vision Pty Ltd

Mr Timothy Brooke-Hunt (Owner/Chief Executive Officer)

Samson Productions Pty Ltd

Ms Anni Browning (Guarantor's Representative)

Ms Sue Milliken (Executive Director)

Screen Producers Association of Australia/ Australian Screen Directors Association

Mr Geoff Brown (Executive Director, Screen Producers Association of Australia)

Mr Richard Harris (Executive Director, Australian Screen Directors Association)

Ms Bethwyn Serow, (Policy Officer, Screen Producers Association of Australia/Australian Screen Directors Association Documentary Council)

Yoram Gross-EM.TV

Mrs Rachel Alexandra (Sandra) Gross (Managing Director)

Watson, Mr Geoffrey (General Manager)

Wednesday, 17 September 2003 – Canberra

Special Broadcasting Services Corporation

Mr William Berryman (Head of New Media and Distribution)

Miss Julie Eisenberg (Head of Policy)

Mr Nigel Milan (Managing Director)

Ms Glenys Rowe (General Manager, SBS Independent)

Tuesday, 30 September 2003 – Adelaide

Film and Television Institute of Western Australia Inc

Mr Tom Lubin (Head of Training)

Ratbag Services Pty Ltd

Mr Gregory Siegele (Chief Executive Officer)

Screen Tasmania Advisory Board

Mr John Nicoll (Director)

Ms Margaret Reynolds, Ms Margaret (Chair)

Screen West and Bungarra Software

Mr Jeremy Bean (Director, Corporate and Commercial Services, Screen West Inc)

Mr Rene Seeberger (Managing Director, Bungarra Software)

South Australian Film Corporation

Mrs Judith Crombie (Chief Executive Officer)

Wednesday, 8 October 2003 - Canberra

Austrade

Mr Lloyd Downey (Global Team Leader, Service Exports)

Wednesday, 15 October 2003 – Canberra

Department of Communications, Information Technology and the Arts

Mr David Kennedy (General Manager, Strategy Branch, National Office for the Information Economy)

Dr Paul Salmond (Manager, Film Industry Section, Film and Digital Content Branch)

Mr Michael Sutton (General Manager, ICT Innovation)

Ms Christabel Wright (Manager, Digital Content)

Mr Peter Young (General Manager, Film and Digital Content)

Wednesday, 5 November 2003 – Canberra

Film Finance Corporation Australia Ltd

Ms Mary Anne Reid (Policy Manager,)

Mr Brian Rosen (Chief Executive)

Wednesday, 26 November 2003 – Canberra

Film Australia

Ms Sharon Connolly (Chief Executive Officer)



Appendix D

Table 1 Film and video production industry – as at 30 June 2000

	Units	1996-97	1999-2000
Businesses at 30 June	no. persons	2,004	1,975
Total employment at 30 June	no. persons	9,591	15,195
Income			
Production of television program	\$m	377.8	472.2
Provisions of production services to other businesses	\$m	122.3	233.1
Provision of post-production/laboratory services	\$m	146.6	262.6
Other income	\$m	537.8	505.9
Total	\$m	1,184.5	1,473.8
Expenses			
Wages and salaries	\$m	335.7	373.5
Payment to other businesses for production services	\$m	199.8	250.8
Other expenses	\$m	726.1	773.6
Total	\$m	1,261.6	1,397.9
Operating profit/loss before tax	\$m	-77.0	76.5
Operating profit margin	%	-0.1	5.4

Source *Film and Video Production and Distribution, Australia (8679.0). Australian Bureau of Statistics, Year Book Australia 2003, 'Service Industries: Film, video and television industries,* <<http://www.abs.gov.au/Ausstats/abs@nsf/46d1bc47ac9d0c7bca256c470025ff87/5285>>

E

Appendix E

Table 2 Film and television distribution industry – as at 30 June 2000

	Units	1996-97	1999-2000
Businesses at 30 June	no.	66	58
Employment at 30 June			
Permanent full-time	persons	1,107	1,059
Permanent part-time and casuals(a)	persons	234	366
Total	persons	1,341	1,426
Income			
Rental/lease of pre-recorded video tapes, DVDs, films and video games	\$m	434.1	580.8
Sales of pre-recorded video tapes, DVDs, films and video games	\$m	254.3	260.3
Provision of channels to pay TV operators	\$m	156.0	169.2
Other	\$m	129.5	131.5
Total	\$m	973.9	1,141.8
Expenses			
Wages and salaries	\$m	62.1	66.8
Copyright fees/licences for film and video distribution	\$m	n.a.	235.6
(b)			
Advertising expenses	\$m	90.1	127.1
Program rights/licence fees used	\$m	136.1	124.4
Other expenses	\$m	682.5	484.5
Total	\$m	970.8	1,038.4
Operating profit/loss before tax	\$m	3.1	103.6
Operating profit margin	%	0.3	9.3

(a) For 1996-97, employment at end of June excluded casual employees.

(b) For 1996-97, copyright fees/licences were published under licence fees.

Source Film and Video Production and Distribution, Australia (8679.0). Australian Bureau of Statistics, Year Book Australia 2003, 'Service Industries: Film, video and television industries
<<http://www.abs.gov.au/Ausstats/abs@nsf/46d1bc47ac9d0c7bca256c470025ff87/5285>>



Appendix F

Table 3 Motion picture exhibition industry – as at 30 June 2000

	Units	1993-94	1996-97	1999-2000
Businesses at 30 June	no.	224	188	173
Cinema details				
Cinema sites at 30 June	no.	329	325	326
Cinema screens at 30 June	no.	754	1,050	1,513
Cinema seats at 30 June	'000	227	323	373.5
Paid admissions during year	'000	60,047	73,262	79,384.3
Drive-in theatre sites at 30 June	no.	41	28	17
Drive-in screens at 30 June	no.	52	36	27
Total employment at 30 June	no.	5,729	7,739	9,282
Income				
Gross box office receipts	\$m	447.5	551.8	678.9
Sales of food and beverages	\$m	105.0	142.1	175.9
Other income	\$m	82.8	138.3	191.3
Total	\$m	635.3	832.2	1,046.1
Expenses				
Labour costs	\$m	99.0	123.1	129.9
Film hire/rental	\$m	168.1	211.2	268.2
Other expenses	\$m	293.0	378.9	536.1
Total	\$m	560.1	713.2	934.3
Operating profit before tax	\$m	75.1	119.9	113.3
Operating profit margin	%	12.0	14.9	11.4

Source *Motion Picture Exhibition, Australia (8654.0). Australian Bureau of Statistics, Year Book Australia 2003, 'Service Industries: Film, video and television industries*
<http://www.abs.gov.au/Ausstats/abs@nsf/46d1bc47ac9d0c7bca256c470025ff87/5285>

G

Appendix G

Table 4 Video hire industry – 1999-2000

	Units	Value
Businesses at end of June	no.	1,166
Locations at end June		
Capital city and suburbs	no.	1,228
Total	no.	1,615
Active video hire store membership at end June	'000	5,499.4
Video rental transactions for the year ended 30 June	'000	151,897.3
Employment at 30 June		
Working proprietors and partners of unincorporated businesses	persons	741
Employees		
Permanent employees	persons	3,014
Casuals	persons	7,279
Total	persons	10,293
Total employment	persons	11,034
Income		
Income from the rental of videos	\$m	443.8
Income from the rental of video games	\$m	38.3
Sale of videos and video related goods	\$m	36.3
Sale of food and beverages	\$m	40.0
Other income	\$m	36.8
Total	\$m	595.2
Expenses		
Labour costs	\$m	128.9
Depreciation and amortisation	\$m	103.4
Rental of premises	\$m	74.3
Purchases of videos	\$m	67.8
Other expenses	\$m	184.3
Total	\$m	558.7
Operating profit before tax	\$m	42.0
Operating profit margin	%	7.2

Source Video Hire Industry, Australia, 1999-2000 (8562.0). Australian Bureau of Statistics, Year Book Australia 2003, 'Service Industries: Film, video and television industries' <<http://www.abs.gov.au/Ausstats/abs@nsf/46d1bc47ac9d0c7bca256c470025ff87/5285>>



Appendix H

Table 5 Television services industry- 1999-2000

	Units	Commercial free-to-air television	Pay television	Total private sector television broadcasters
Businesses at 30 June	no.	34	7	41
Employees at 30 June				
Permanent full-time	no.	6,392	2,379	8,771
Permanent part-time and casuals	no.	1,415	482	1,897
Total	no.	7,807	2,861	10,668
Income				
Gross income from the sale of airtime	\$m	2,821.1		2,821.1
Subscription and membership income	\$m		789.1	789.1
Other income	\$m	449.9	121.7	571.6
Total	\$m	3,271.0	910.9	4,181.9
Expenses				
Wages and salaries	\$m	302.2	159.4	461.6
Program rights used/payments to channel providers	\$m	863.9	469.8	1,333.7
Other expenses	\$m	1,3014.4	986.5	2,287.9
Total	\$m	2,467.5	1,615.7	4,083.2
Operating profit before tax	\$m	803.5	-675.8	127.7

Source Television Services, Australia, 1999-2000 (8559.0). Australian Bureau of Statistics, Year Book Australia 2003, 'Service Industries: Film, video and television industries' <<http://www.abs.gov.au/Ausstats/abs@nsf/46d1bc47ac9d0c7bca256c470025ff87/5285>>