SUBMISSION BY THE NEW SOUTH WALES FILM AND TELEVISION OFFICE

TO THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON
COMMUNICATIONS, INFORMNATION TECHNOLOGY AND THE ARTS

INQUIRY INTO THE FUTURE OF AUSTRALIA'S FILM, ANIMATION, SPECIAL EFFECTS
AND ELECTRONIC GAMES INDUSTRIES

JUNE 2003

EXECUTIVE SUMMARY

A most important factor for policy makers to consider in the preparation of strategies for the continued development of the Australian film and television sector is that of correctly and creatively balancing the key dynamics:

°   balancing the sensitive requirements of a fragile *local* sector with encouraging the strong growth prospects of *international* production and post-production;

°   balancing the long standing and indispensable *cultural* support mechanisms, which express our unique identity to ourselves and the world, with the emerging *industry development* model, with its focus on economic benefits and employment;

°   balancing and optimising the policy settings and support programs of *Federal* and *State* governments;

°   balancing the essential requirement for government investment in Australian content with the desirability of increasing private risk capital involvement.

The Australian film industry comprises a complex set of dynamics that need on-going application of energy and careful policy to keep the industry growing and healthy. These forces should always be kept in proper alignment to ensure that each is expanded or strengthened in ways which encourage the equal and complementary development of the other elements.

WHAT NEEDS TO BE DONE TO PRESERVE AND EXTEND AUSTRALIA'S POSITION AND DISTINCTIVE VOICE IN GLOBAL FILM AND ELECTRONIC GAMES PRODUCTION?

Australia does have substantial visibility and success in the global entertainment business in relation to its size and location. Thirty years of government support and the maintenance of internationally recognised organisations that have nurtured talent have enabled Australia to make its mark in this sector. Australian films have had to compete against the best English language product in the world. Given Australia's resources and population base Australia has been very successful. It has a reputation of a distinctive filmmaking culture with a unique voice. Australia's production techniques are considered highly efficient and great value for money.

New South Wales is home to more than half the film sector in Australia.

In New South Wales, the strength of the local industry is seen as a competitive advantage in attracting the large off shore productions ("footloose" productions that are looking for

a production home for economic and/or creative reasons) which deliver the substantial economic benefits and enhance Australia's reputation for world class production. For example, the Matrix (the first film in the trilogy) was made in Sydney and the producer stated that he had saved US$40 million - the film cost US$70 million instead of US$110 million. All of the post-production was done in Sydney and put Sydney on the map as a place where you could make innovative, complex, big budget, world class films. This could also not have been achieved without the establishment of Fox Studios Australia, providing state of the art sound stages.

The NSW Government commissioned a report "Content, Cluster and Competition strategies 2000 –2005." The phenomenon of footloose production "is a response to and partly result of, the globalisation of the film and television industries. But they only succeed because indigenous[local] film industries in a range of countries have reached a high level of sophistication." (page 11)

The interplay between a local industry, created for a cultural rationale and the "industrial" footloose production (which has an economic rationale) is a key characteristic of film industries around the world, and applicable to the situation in NSW. There are benefits on both sides – the footloose productions can bring substantial skill development to the local industry and build an international reputation - particularly in cast, production support and post production - in the global marketplace. The footloose production provides a more even production slate enabling more consistent employment for sections of the industry.

The Long Report also states:

"Footloose productions can inject very considerable amounts of money into a host community's production industry and into the broader local economy. Big budget footloose productions made for the global audience can also project an image of the production's location into the world's cinemas with important consequences for trade and tourism." (page 12)

The footloose production gets the benefits of a cost effective infrastructure (cast, crew, post production), interesting locations and a competitive exchange rate.

TERMS OF REFERENCE

- **the current size and scale of Australia's film, animation, special effects and electronic games industries**

There has been substantial growth in the film industry over the last six years. In NSW the level of drama production (feature films, telemovies and TV drama) has increased from $102 million in 97/98 to $353 million in 2001/02. (Source: Australian Film Commission Drama Expenditure in Australia) This rapid increase in production is mainly from large budget productions coming to use Fox Studios and the other advantages NSW has to

offer. (These figures do not include television advertising production which is a significant contributor to production and post-production in NSW.)

The digital effects (FX) industry in Australia has grown rapidly over the past ten years, creating numerous jobs and attracting many millions of local and international dollars in work. This has been due to our quick uptake and development of the digital technology involved, our advanced film (and television) literacy, a supportive exchange rate, the Australian "can-do" mentality and a fiercely competitive environment within the local visual FX industry.

- **the economic, social and cultural benefits of these industries**

There are clearly major economic, social and cultural benefits of these industries.
The NSW Department of State and Regional Development has estimated that the NSW audio-visual industry was worth $4 billion in 2002. (based on ABS data, which includes distribution and exhibition) It is growing at a rate of 15 per cent per annum on average, and is expected to grow similarly for the next five years at least.

The film and television production sector is a growth sector in terms of generating jobs. There has been an 82% increase in job growth between 1995 and 2001/02. In 2001/02 there were 18,000 direct jobs and a further 36,800 indirect jobs in NSW.

There are broad social and cultural benefits in terms of the power of these mediums to effectively reach large audiences through various platforms. In achieving this, this industries each provide Australians with access to, firstly, their own culture and then to alternative perspectives on life and society, primarily on the basis of delivering entertainment.

Important cultural benefits flow from Australians having the opportunity to see and experience Australian stories, issues and landscapes. This can lead to cultural growth, the ability to review and change attitudes towards national identity and an enhanced social cohesion.

The economic power of the Hollywood system is enormous with the seven major studios now part of global entertainment conglomerates. They are vertically integrated companies with control over all parts of the process – content production and distribution and therefore revenue. These media conglomerates have worldwide reach and marketing power. The marketing budgets for Hollywood blockbusters in Australia generally equals the production budget for an Australian film.

The challenge for other cultures is to be able to create content that tells stories relevant to that country and culture, to not use US content as the reference point, and to find ways to increase market share.

Apart from job creation, there are spin offs from this industry in terms of innovation, skill development, trade and tourism. For example, a Sydney company which did some of the digital effects for the Matrix trilogy, Animal Logic, has carried out software design to create effects that have not been created anywhere else in the world. The commercial success of the Matrix around the world then gives that Australian expertise an immediate state of the art international reputation.

The calibre of Australia's filmmaking gives the country international recognition as a modern western society and therefore a top-tier holiday destination. The fact that such high profile filmmakers – such as directors and actors – are prepared to come to Sydney to spend three to four months to live, finding it a sophisticated city – helps with attracting tourism. It gives Sydney a high profile, glamorous reputation. Conversely the number of successful Australians in Hollywood also contributes to Australia's fashionable reputation. There are also benefits that flow to regional areas. For example, the filming of "Babe" led to increased tourism in the Southern Highlands, directly linked to visiting the filming locations.

- **future opportunities for further growth of these industries, including through application of advanced digital technologies, on-line interactivity and broadband**

There has been an interesting debate about content on digital platforms. The dot.com collapse severely dampened investors enthusiasm about finding the "killer application" for this new technological environment.

The availability of "rich" content is still a problem for driving broadband uptake. There have not really been any successful business models created to generate revenue to be able to pay for the content at anything like its real cost.

The definition of content has changed from the traditional free-to-air television regulatory definitions. Content has a much broader definition in this environment – it can vary from e-business (virtual tours of real estate properties for sale) to real time reality TV, with interactive components such as those utilised by Big Brother. In the UK, the Big Brother website was built at a cost of some half a million pounds. In addition to the weekly TV program, there was 24/7 access to the "house" via the web. Substantial extra revenue was earned using voting via SMS on mobile phones. Two thirds of the voting audience for the last series voted via their set top boxes or SMS on their mobile.

The opportunities and challenges for the film and television industry are to make programs that can be transmitted across a number of platforms rather than just one. This multi platform approach is increasingly expected by program buyers. It impacts on the production techniques, schedules and budgets. The rapid rise in the DVD market provides a good opportunity for increased revenue. However, there are additional costs associated with producing a DVD.

The recent release of "Matrix Reloaded" is an interesting case study about what is possible with a Hollywood blockbuster. The film was released around the world

simultaneously (to minimise piracy), there was a selection of animated shorts about the films also released, a set of DVDs will be released in due course. During the making of the film a documentary crew was commissioned to shoot footage that will be used for "the Making of..." on the DVD. It also had a website that was used extensively in the marketing of the film.

The issue of piracy needs to be considered in context of these digital platforms. Piracy is estimated to be costing Hollywood US$5 billion per annum. The last two "franchise" blockbusters to be released – "X-men 2" and "Matrix Reloaded" were both released world wide simultaneously. Despite substantial extra costs in terms of prints and advertising and logistics for every territory (instead of rotating prints through territories at later dates), the studios decided this was the most effective way to release the film and reduce the opportunity for piracy.

The NSW Film and Television Office commissioned a report on "Broadband: A comparative study of trends in UK, Canada, Netherlands and South Korea" by Julie Marlow. It states that

"The inhibitors in the U.K. are
- Primarily economic. There is a resistance to paying for content with advertising revenue low.
- There are high costs of acquisition and production. If programming is repurposed, the producer has to bear the cost of encoding, storage and transmission. Other forms of television spend massively on desirable ratings content, like premium sporting events, thus raising expectation as to what might be paid for broadband usage of the same content (with a currently small audience). There is concern amongst free to air and pay TV cable operators that is audiences go to a website to source content, instead of a TV station, the content provider will lose out.
- There is producer reluctance to make content available because of fears of piracy.
- It is difficult to manage rights when there is no border distribution.
- The micro-payment system for casual/small on-line transactions is undeveloped. This is an area where high level venture capital has been invested, particularly in the US – approximately $2 billion – in the last 18 months. Vodaphone for instance, has approximately 10 million mobile phone users in the UK, and are also a service provider. They are developing a microbilling payment system using SMS through and existing account.
- There are risks that applications for the Small and Medium Enterprise (SME) market will remain unserved, as will the non-mainstream content." (page 6)

The FX industry still has many challenges to face. The advantageous exchange rate is not something that can be depended on. As many exporters are now painfully aware, it has been moving in the wrong direction for some time. To maintain overseas use of local facilities, there needs to be a focus on the other advantages and disadvantages that we have (some) control over. These might include increased marketing of local Australian digital FX work to the international market. This might be achieved through

supporting an increase in the great work that AUSfilm performs on behalf of the local industry.

- **the current and likely future infrastructure needs of these industries, including access to bandwidth**

One of the key infrastructure constraints in NSW has been lack of sound stages. NSW has become a high sought after production site but with only Fox Studios Australia with its 7 sound stages, there has only been capacity for one large Hollywood production at a time.

The success of films that have been shot in Sydney have lead to increased demand to access NSW's talent base and infrastructure. There are now three different studio complexes being built with private sector money in Sydney. It is expected that there will be at least another eight sound stages in Sydney by 2004.

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.

The Federal Government has given some funding to the Film Industry Broadband Resources Enterprise Pty Ltd (FIBRE) to assist with a broadband aggregation strategy to improve the cost of broadband connections between the studios and post-production facilities. Post-production facilities have extensive use of bandwidth which usually fluctuates between extreme high and low usage. FIBRE's objective was to provide access to internationally competitive pricing for high bandwidth for Australian film, special effects and animation industries. This is critical to keep Australia competitive. Continued support for FIBRE is an important infrastructure for the success of the Australian industry.

One of the challenges for Australian film is the pressure on the distribution of independent films here and around the world. The impact of the Hollywood blockbuster and the rise of multiscreen cinemas (multiplexes) have greatly reduced the revenue potential for independent films. The blockbusters are run in multiplex complexes as "near video on demand" - the film being run on a different screen every half an hour. This leaves few or no screens for other films. The highest revenue earning films are kept on the screens in multiplexes at the end of each week. A small independent film with a low marketing budget compared to a Hollywood blockbuster running on multiple screens is not be able to compete for screens. The time for a film to recoup (theatrically) has halved in the last 10 years from eight to four weeks.

The issue of on-line distribution is still a vexed one for the industry. The studios have been grappling with an appropriate model to try and prevent the problems that the music

industry had with Napster – where music files were downloaded for free and large amounts of revenue were lost.

Digital cinema is being debated hotly in the US. The last George Lucas Star Wars prequel was screened in about 30 digital cinemas in the US. There was a marketing campaign encouraging audiences to see "Attack of the Clones" in digital format. The digital screens took double the box office per screen than the 35 mm screens.

There are major issues in terms of reliability of the technology, the lifecycle of the digital projectors being much shorter than the traditional analogue ones, and the capital cost of replacing the current projectors. An added problem is that the cost savings of moving to digital projection is made by the distributors in terms of saving on prints, not the exhibitors who need to find the capital. This will probably be an issue in Australia over the next 5 years.

- **the skills required to facilitate future growth in these industries and the capacity of the education and training system to meet these needs**

In earlier times NSW has been criticised as not having enough crew depth for a number of large productions, but now most of the talented industry specialists have based themselves in Sydney, and work here, in other Australian states, and on major overseas productions. There is a question now about whether there will be adequate trained crew in Australia when the new studios in Melbourne and Sydney are completed and full.

Critically there needs to be sufficient investment in local production to maintain and expand the skills base. Training by itself is not sufficient. This has to be followed up by practical experience.

A major problem for local FX companies is the boom and bust nature of the industry. This is magnified by the huge cost of software and hardware for companies. This often pushes them to the edge (and sometimes beyond) of solvency when a project finishes and there isn't work to help fund the ongoing costs. An immediate solution is to cut jobs, which can obviously be difficult for those individuals. Solutions here may be to fund a study of the economics of this sector and develop financial planning or mentoring services.

Within, and around, the Australian digital FX industry, there is a developing culture of conferences, professional groups, social groups and publications. These provide very important roles by providing forums for discussion (the Digital Labourer's Federation, the Australian Effects and Animation Festival), creating an international profile (local chapters of SIGGRAPH, in Sydney, Melbourne and Perth), allowing local digital effects companies and artists to meet engage with industry leaders from around the globe (the Australian Effects and Animation Festival, SIGGRAPH) and more. Support for initiatives such the GRAPHITE2003 conference, held in Melbourne. In February this year, would in particular help boost the profile of the Australian industry internationally.

Traditional animation in Australia has suffered, to a certain extent, from the amount of work being outsourced to companies based in countries with significantly lower labour rates. While much of the more highly skilled work (story boarding, character development, key framing etc) remains here, a lot of the more basic work (in-betweening, colouring etc) is done in a sweat shop atmosphere largely in South East Asia. This is not simply a direct loss of jobs, but is a loss of an area of work that trains and helps identify talent to brought through to advanced levels of animation. This situation may change as digital technology develops and automates much of the "basic" work. This could make it economically easier to retain work in Australia, but may not create high levels of employment.

Incentives to digital FX companies to take on and develop graduates should be considered. This has been pioneered by the New South Wales Film and Television Office through its Visual Digital FX Placement Scheme, and a similar scheme has now been adopted by Film Victoria. These schemes help graduates make the very difficult transition from study to the frantic real world of the production environment. It also supports companies make which make a training investment, through wage assistance and develops the pool of local talent. The scheme in NSW has been very successful with over 80% of the trainees employed in this field following completion of their placements.

Relationships between academia, other areas of industry, and the digital FX industries should be encouraged. This might involve areas of study/industry such as IT which can help in the development of solutions/products that deal with the increasingly complex and demanding technical issues faced by digital FX companies. Local companies such as Animal Logic have been instrumental in developing software and hardware that are used around the globe, and development in this area will help forge Australia's standing as a world leader in not simply the digital visual output but the considerable technical foundations on which these effects stand. Similar relationships could be encouraged with the creative organisations , from the (more obvious) film and digital effects faculties through to the perhaps more esoteric art schools and architectural faculties. Theories brought to fruition in these areas can often push and developtechnologies in ways not normally considered in a production environment.

To date there has been no comprehensive skills audit of the Australian film industry to identify skills gaps and projected future needs in order to remain competitive.

In February 2003, the UK Film Council and Skillset commissioned a report "Developing UK Film Talent: A comprehensive skills survey of the UK film industry". In regard to digital and new technology, the report identified that:
- in post –production, practitioners need regularly updated short courses to keep pace with change
-that pre-entry and new entry training is not always keeping up with industry practice

-that the distribution and exhibition sectors have not reached any agreed conclusions on the timing or level of impact of digital technology. (p 40)

The findings of the research undertaken was used to inform a new strategy and action plan. A similar survey for the Australian industry would be extremely beneficial for policy formation and to ensure that the FTO and fellow agencies could respond in a timely and effective manner to the future industry needs.

- **the effectiveness of the existing linkages between these industries and the wider cultural and information technology sectors**

As mentioned above, NSW has experienced rapid growth over the last 7 years in this industry – some 200% increase. The linkages with other parts of the cultural and IT sectors are often informal.

The costume department for Moulin Rouge is an interesting example where they needed 123 costume designers. They came from other arts fields – such as theatre, TAFE teachers of dressmaking, haute couture designers and stage designers.

- **how Australia's capabilities in these industries, including in education and training, can be best leveraged to maximise export and investment opportunities**

It is essential that State and Federal Governments collaborate closely together, and with the private sector, to maximise opportunities to exports and investment.

Our sector has established the Ausfilm organisation, which will make its own detailed submission to this committee. We believe this model, where States and businesses cooperate to market Australia internationally, but compete for business already committed to Australia, has great potential for development and refinement.

- **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**

The film industry has traditionally not been well recognised in terms of industry development policy and initiatives. Because there is some subsidy for production, there has been a tendency to dismiss the film sector as an industry. The combination of art and commerce can sit uneasily with the usual industry development programs. Film production used to be a "cottage" industry but over the last 5 years this has changed substantially.

Film financing has become a global business with deals often involving financing from a number of different countries.

27 June 2003

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

Dear Sir/Madam,

RE : Inquiry into the Future of Australia's Film, Animation, Special Effects and Electronic Games Industries

Please find enclosed a submission by the New South Wales Film and Television Office dated June 2003 for the Inquiry into Future Opportunities for Australia's Film, Animation, Special Effects and Electronic Games Industries.

If you have any questions regarding this submission, please do not hesitate to contact me.

Yours Sincerely,

Jane Smith
Chief Executive