House of Representatives Standing Committee on Communications, Information Technology and the Arts - Inquiry into the Future Opportunities for Australia's Film, Animation, Special Effects and Electronic Games Industries

INTRODUCTION

The purpose of this submission is to outline the current support from the Commonwealth Government to the industries which are the subject of this inquiry.

It has been prepared by the Department of Communications, Information Technology and the Arts (DCITA) with the assistance of the National Office for the Information Economy (NOIE). The Australian Film Commission (AFC) has advised of its intention to make a separate submission, so the AFC programs are described in outline rather than detail in this document. The body of the submission deals with the program of the portfolio and Appendix A is a summary of supporting programs from other portfolios. Appendix B is information provided by Invest Australia which addresses leveraging Australian industry capabilities to maximise investment opportunities, particularly for the games industry.

This portfolio has a particular interest in the Information and Communication Technology (ICT) industries which can be viewed as comprising a spectrum of four key components – hardware, software, services and content. Considerable work has been undertaken at the infrastructure end of this spectrum – including the recent work of the Framework for the Future (FFF) Taskforce and the activities of the Broadband Advisory Group (BAG). It also includes significant and important work in relation to content and applications.

This portfolio includes key agencies with active programs supporting the industries which are the subject of this inquiry. These include the Commonwealth film agencies: the Film Finance Corporation (FFC), the AFC, and Film Australia. This submission also notes the activities of the Special Broadcasting Service (SBS), the Australian Children's Television Foundation (ACTF) and AusFILM. Support of content creation is addressed through programs administered by the Australian Film Commission (AFC) and the Australia Council. In relation to training, the Australian Film Television and Radio School (AFTRS) is a key Commonwealth-funded training provider.

Affordable access to broadband is of prime concern to the film and digital content industries, and is being addressed through the activities of the Film Industry Broadband Resource Enterprise (FIBRE), supported by DCITA.

DCITA and NOIE each provide a degree of general policy coordination in relation to aspects of Australian's film, special (visual) effects and electronic games industries. This policy work has important impacts upon the industries which are the subject of the present inquiry.

Current work includes the development of a comprehensive Digital Content Strategy, with the objective of accelerating the production, distribution and marketing of digital content and applications domestically and internationally. Restated in the 2001 election policy of the Government, this commitment arose from the recognition that digital content and applications will become increasingly important, both in economic terms and as a means of expressing Australia's unique cultural identity. Since 2001 the three stage Creative Industries Cluster Study (CICS) (detailed below) has been the vehicle for developing this strategy. When the study concludes in September this year, it will provide firm, sector and industry wide information on the scope, scale and dynamics of the creative digital industries in Australia. The study will inform the development of a consolidated Commonwealth response to support the growth of the creative industries producing digital content and applications.

CURRENT PROGRAMS

1. FILM

Commonwealth Film Program

DCITA monitors and evaluates the effectiveness of the Commonwealth's film program. Its key responsibilities are to develop policy proposals for Government and to implement decisions, including those requiring central coordination and liaison between the Commonwealth film agencies, and to analyse, complement and report on advice provided by other film agencies, especially the AFC.

In 2003-04, the Government will provide the film and television production industry with approximately $119.5 million in funding. Funding is channelled into the industry through the following agencies.

- The FFC is the Government's principal production investment agency. It provides equity investment for feature films, telemovies, mini-series and documentaries which meet its investment criteria. The FFC will receive $60.5m from the Commonwealth in 2003-04.
- The AFC provides development support to writers, producers and directors. It invests in practitioner development to improve the work of directors, producers and writers and also focuses on project, audience and market development for the independent production sector. It will receive $22.2m from the Commonwealth in 2003-04. In addition, the Government has announced that the AFC will assume responsibility for the functions of ScreenSound Australia – the National Screen and Sound Archive on 1 July 2003.
- Film Australia commissions social documentary programs under the National Interest Program and is one of the largest producers of television documentaries and educational programs. Film Australia will received $9.9m from the Commonwealth in 2003-04.
- SBS Independent commissions multicultural drama and documentaries from the independent production sector and will receive $8.6m in 2003-04.

- The Australian Film, Television, and Radio School is a national advanced level training institution for the film and broadcasting industries. It will receive $15.9m from the Commonwealth in 2003-04.
- The Australian Children's Television Foundation encourages the development, production and distribution of children's television programs, films and other audio-visual media. It will receive $2.4m in 2002-03.

The Department is responsible for the operation and administration of film tax concessions available under divisions 10B and 10BA of the Income Tax Assessment Act. It also monitors the operation of the Film Licensed Investment Company (FLIC) Pilot Scheme. FLIC was designed to test new methods for attracting private sector investment in the film industry and under which eleven feature films, as well as children's drama and documentaries, were financed and produced between 2000 and 2002. Now that the pilot has concluded, the Department will review the outcomes of the scheme as part of its ongoing assessment of Commonwealth support for the film industry.

Feedback from industry stakeholders suggests that the key issue for the industry is securing production investment in an increasingly competitive marketplace. In September 2001, the Government announced the $92.7m Integrated Film Industry Package, which was targeted specifically at increasing support for production, development and the use of new technologies.

- The FFC, in particular, is actively seeking ways to encourage an increase in the production investment pool for the local film industry through greater private sector participation.

Refundable Tax Offset for Film Production in Australia

The Federal Government offers an incentive to film producers to locate production in Australia. The incentive was announced in 2001 as part of the Integrated Film Industry Package.

The incentive is called the refundable film tax offset (the offset) and it results in 12.5 per cent of an eligible film's qualifying Australian production expenditure being provided to the film producer through the tax system once a film is completed. The offset is focused on attracting larger value productions to Australia and the eligibility requirements limit its availability to feature films, telemovies and television mini-series with a qualifying Australian production expenditure of at least $15 million.

The purpose of the offset incentive is broad. The principal intent is to attract large budget film productions to Australia in order to increase opportunities for the Australian production and post-production sectors.

However, the offset also aims to increase the opportunities for Australian businesses in the international export services market by showcasing the skills and expertise of Australian filmmakers and production services companies. The expenditure tests of the offset encourage producers to bring more production activity to Australia, particularly in the post-production sector. For example, since the introduction of the offset, Australia has been developing an impressive reputation for post-production, VFX, 3D animation, music and sound design services. Australian post-production businesses have been involved in international blockbusters like *The Matrix* trilogy, *Star Wars Episode II* and *Lord of the Rings*.

The offset also benefits Australian business by encouraging increased investment in Australian infrastructure. Recently, three new production studios have commenced construction or have just been completed – Central City Studios in Melbourne, and Sunrise and Serenity Cove Studios in Sydney. These studios complement the Fox Studios in Sydney and the newly-expanded Warner Roadshow Studios on the Gold Coast.

AusFILM Funding

AusFILM is an independent association of State film agencies and private sector companies that works in conjunction with the Australian Trade Commission to promote Australia's facilities, locations and personnel to the international market. It is responsible for the international marketing of Australian film and television production services and for promoting Australia as a destination for filmmaking.

As part of the Integrated Film Industry Package, the Government provides funding to AusFILM of $1 million per annum, indexed and ongoing, with a review scheduled for 2004-05.

The purpose of AusFILM's funding is to enhance its role as a comprehensive service provider, offering information services for foreign companies on film production in Australia and all levels of government regulatory requirements.

With Commonwealth funding, AusFILM has expanded its services and heightened its profile as the definitive 'one-stop shop' for offshore filmmakers seeking advice regarding filming in Australia. AusFILM has achieved this by developing a comprehensive website, international marketing at trade shows, raising the profile of AusFILM executives and activities, and producing new marketing and information materials and trade displays featuring Australian locations.

2. NEW MEDIA

The New Media Arts Board of the Australia Council was established in May 1998 to support artists working with new technologies and in interdisciplinary art. From 1997-98 to 2001-02, the Council provided $13 million to artists working in online and in other new media.

3. BROADBAND

Broadband Content

The Australian Film Commission (AFC) has recognised the increased convergence of the film and television, interactive digital media and electronic and computer games industries into an overall screen-based content creation industry. This has led the AFC to develop programs of assistance to support creation of content in this new environment. The *Broadband Production Initiative*, a joint initiative of the AFC and ABC New Media, is supported through the Commonwealth Government's Broadband Content Fund. The $2.1m fund, administered by the AFC, will finance innovative broadband content, with the emphasis on high-end, high technology content that utilises interactive applications. The projects funded will be hosted as a broadband component on the ABC's website.

FIBRE

As part of the Integrated Film Package, the Commonwealth provided support of $300,000 per annum in 2001-02 and 2002-03 to enable FIBRE, a group of key players in the post-production sector, to act for the sector in developing and implementing a demand aggregation case on the bandwidth requirements for the post-production industry. The local sector has identified the cost of bandwidth as a key issue in its quest to remain at the forefront of the post-production sector globally.

Post-production companies use large amounts of data that are distributed in bursts. Until now, they have found it difficult to find competitive pricing under current business bandwidth pricing packages.

FIBRE did not commence full operation in November 2001, with the appointment of its Executive Director.

FIBRE has supplied its final report, which has been accepted by DCITA. It is clear that FIBRE has achieved some extremely valuable outcomes over this relatively brief period:

- It has succeeded in driving down the cost of both connection to broadband networks and costs of transmitting data.
- It has worked with telecommunications partner Uecomm to introduce innovative features such as bandwidth on demand (with no change fees) and free local traffic within each state.
- FIBRE's network of customers now extends from Brisbane to Melbourne, involving 8 companies at 11 sites.
- Further indirect benefits are available through the increased flexibility that free local traffic and bandwidth on demand offer.

As a particularly striking example, one of the largest post-production companies in Australia signed with FIBRE after many years as a Telstra customer and after first investigating demand aggregation possibilities outside the FIBRE model. The company estimates that using FIBRE services will save it $100,000 in the first year of the contract, when compared to their previous service provider, and $500,000 over the life of the three-year contract. The company, which is not named in FIBRE's reporting due to commercial-in-confidence issues, has confirmed that this is in fact the case. Apart from the significant cost savings, the arrangement with FIBRE offers them considerably enhanced flexibility.

FIBRE has also started to develop its activities into a broader range of areas, in order to consolidate and expand its support base and revenue sources. It has begun working with the Games industry, with the co-operation of the Games Developers Association of Australia. FIBRE's funding for 2003-4 is currently being considered.

4. TRAINING

The Australian Film, Television and Radio School (AFTRS) is Australia's national, advanced level training institution for the film and broadcasting industries. The School is a statutory authority established under the *Australian Film, Television and Radio School Act 1973* (AFTRS Act).

The AFTRS provides full time, post-graduate courses; a program of industry short courses and seminars; international study opportunities; a training program for Indigenous Australians; an industry program for women; and a technical trainee scheme. AFTRS is increasing its focus on digital production and online distance learning.

A very high proportion of graduates from the AFTRS achieve employment in their chosen field soon after graduating. In 2002, 35 per cent of graduates were employed at the time of graduation, 79 per cent within 3 months of graduation and 95 per cent within 12 months of graduation.

AFTRS Graduates and students have won more than 400 awards including the Cannes Palme d'Or, Camera d'Or, Palme d'Or for Best Short (twice), an Academy Award for Best Cinematography, an Academy Award for Best Screenplay (from six Oscar nominations), 22 Australian Film Institute Awards and 10 Best Short Fiction Awards at the Sydney Film Festival. Three AFTRS graduates were nominated at the 2003 Academy Awards:
- Dion Beebe for his cinematography on the best picture *Chicago*; and
- Stephen Pasvolsky and Joe Weatherstone for the short film *Inja.*

Another major training institution in film, television and digital media is the VCA School of Film and Television. A number of other institutions offer degrees in film and television production, including Macquarie University, Flinders University, Deakin University and University of Technology, Sydney (UTS).

In addition, the New South Wales Film and Television Office Digital Visual FX Scheme places trainee digital artists in visual effects companies.

5. SPECIAL EFFECTS AND GAMES – BACKGROUND INFORMATION

The film industry makes a distinction between *special* and *visual* effects. Special effects are 'on set' effects such as pyrotechnics. Visual effects are post-production effects, usually digitally produced. Visual effects are used in feature film production, television productions such as documentaries and series as well as television commercials (TVC).

Some major visual effects firms and productions are listed below.

New South Wales	1. **Garner McLennan Design** (GMD): *The Quiet American*; *Rabbit Proof Fence*; *Lord of the Rings*; *Farscape* television series. 2. **Animal Logic**: *The Matrix*; *Moulin Rouge*; *Lord of the Rings: Fellowship of the Ring*; *Face/Off*; *The Thin Red Line.* 3. **Complete Post** (also Melbourne): *Ned Kelly*; *The Dish*; *Romeo and Juliet.*
Victoria	1. **Iloura**: TVC. 2. **Swish Group**: *Crackerjack*; *Bad Eggs*; *Undead.* 3. **Unreal Pictures**: *Crackerjack*; TVC and series.
Queensland	1. **Photon VFX** (also Sydney and Melbourne): *Final Fantasy – The Spirits Within*; *Inspector Gadget II.* 2. **Art FX**: *Undead.* 3. **Beeps**: television post production. 4. **Cutting Edge VFX**: *Inspector Gadget*; TVC
South Australia	1. **Rising Sun Pictures** (also Sydney): *Red Planet*, *Queen of the Damned*; *The Core.*

Australia's games industry is small but well regarded internationally and has a reputation of being able to develop games that are sensitive to the cultural nuances of particular national markets. A number of developers have long term relationships with major platform providers including Sony and more recently Microsoft which entered into a production agreement with local developer Microforte. Key international games publishers which have a presence in Australia include THQ, Electronic Arts, Infogrames and Nintendo.

The industry is also seeking to build links with other major games developing countries such as Korea which has quite a large and successful games industry that increasingly specialises in online gaming.

Unlike the Australian film and television production industry the games industry is not segmented on the basis of production being predominantly for either the local or international market. The games industry operates quite clearly in an international market and builds its business strategies around gaining access to global distribution and marketing chains.

Broadband creates threats and opportunities for Australia's games industry. For example, in the context of the global market the wide availability of broadband services in Korea confers on their developers a relative advantage as it provides a source of local demand and experience in developing games in a broadband environment.

However, broadband creates opportunities for Australian developers to experiment with and develop new ways of delivering games as a service and explore new modes of interactivity. Broadband also holds the promise of more efficient delivery of services and better access to and engagement with users and customers.

The Broadband Advisory Group (BAG) found that video post-production and online computer games were important "leader" markets that demonstrate the demand for and potential benefits of broadband.

6. INDUSTRY INITIATIVES AND POLICY CO-ORDINATION

The film, animation, special effects and electronic games industries can be considered as subsets of the digital content industries. The range of products and services produced by these industries are extensive and include: interactive multimedia, digital film and television production and post-production, interactive and digital television, digital video arts production, computer and online games, design and advertising, educational content production, digital publishing, digital and online music, and digital applications.

NOIE's overall role is to ensure that the Commonwealth has a coherent and comprehensive approach to all 'information economy' issues, including the digital content industries. NOIE does not have any program functions in support of the digital content industries, but does undertake policy coordination, advocacy and research activities relevant to the area.

Creative Industries Cluster Study

DCITA and NOIE's primary research activity on the digital content industries is a partnership in the Creative Industries Cluster Study (CICS), which will ultimately lead to the development of a digital content industry strategy. Stage I finished in mid 2002; Stage II, carried out by Cutler and Co, was completed in late 2002. Findings of the report have been analysed in order to identify components for Stage 3. In conjunction with the findings from the earlier stages, this stage will help provide recommendations for Commonwealth policy in relation to creative digital industries

The current stage of the Study (Stage 3) is divided into several research modules, some of which are being conducted by consultants. DCITA has just completed three reports on the following topics:

- The role of collecting institutions in setting industry digital standards and functioning as real or virtual cluster foci;
- The role of government agencies as market participants in digital content markets; and
- Determination of industry requirements for most relevant measures and indicators in data and statistical indicators.

The modules that NOIE is undertaking over the next few months are:

- A study on research and innovation systems in the production of digital content and applications;
- An investigation of possible government strategies to promote digital content management through standards development and interoperability protocols; and
- An assessment of emerging broadband markets for digital content and related applications.

The modules that DCITA is undertaking over the next few months are:

- Identification of structural challenges to growth, especially related to access to global distribution markets;
- Identification of sources of investment and funding and growth models for revenue generation; and
- Needs assessment and means of provision of training resources for industry business managers.

Both NOIE and DCITA will provide support for Queensland University of Technology creative digital industries national and international mapping study, should it be successful in attracting Australian Research Council funding.

NOIE is working within the Commonwealth and with the States on a coordinated strategy to promote broadband infrastructure and content development.

The report of the Broadband Advisory Group (BAG) emphasised the complementary roles of the digital content and broadband infrastructure, and noted that the lack of broadband content was a barrier to investment in broadband infrastructure. However, the report focused on content requirements in leading sectors such as education, health and government service delivery, and the need for an integrated approach amongst Commonwealth agencies and the States to achieve a critical mass of demand. The Government's response to the recommendations of the BAG report is expected in the near future.

The CICS module on emerging broadband markets for digital content will take a wider perspective that will also encompass media, games and entertainment. It is anticipated that this report will form the basis for further discussions with Commonwealth agencies and the States on the infrastructure needs of the digital content industries and linking content industry development to emerging broadband markets.

NOIE is also working on an emerging project in the area of digital rights management for online content, which is now regarded as a prerequisite for the development of a broadband market for digital content and related software.

Activity in this area is embryonic. The CICS module on this subject will inform the development of a project plan later this year. It is anticipated that this project will focus on developing the market for digital copyright management services, rather than recommending any legislative changes to copyright. 'Market development' means collaborating with the private sector to promote the development and adoption of business arrangements, technical standards and investment priorities needed to ensure the protection and commercial use of digital content in the online environment. This is seen as a means of promoting the development of the wider market for broadband content and services.

ICT Industries

DCITA supports the wider information and communications technology (ICT) industry that include Australia's film, animation, special effects and electronic games industries.

It is recognised that this is a rapidly growing sector of ICT with computer games now eclipsing film in terms of worldwide revenue and in the USA has become the No. 1 social pastime. The contribution that this sector can make to entertainment, learning, health and defence is far-reaching and the potential for creating significant export revenue, especially from computer games development, cannot be underestimated. As the major games publishers are based overseas the majority of the revenue is from exports. Additional information on the global electronic games industry is presented at Attachment B.

DCITA has from time to time met with the industry associations that seek to represent the sector, including: Games Developers Association of Australia (GDAA), Australian Interactive Multimedia Industry Association (AIMIA), Australian Information Industries Association (AIIA) and Australian Electrical & Electronic Manufacturers' Association (AEEMA).

The ICT Industry and Intellectual Property (ICTIIP) Division represent the Department on the ICT Events National Committee (ICTENC), a committee that has members from all States/Territories, Austrade, Invest Australia (IA) and industry associations. The ICTENC meets on a regular basis with the aim of promoting ICT innovation and industry to the local and overseas markets at various forums that include CeBIT Hannover and Sydney. Attendance and promotion at such events is under the Technology Australia branding that brings together Federal and State Governments and industry. The Technology Australia branding will be used at all ICT industry events, domestic and overseas, supported by the Federal Government. More detail on ICTENC support for games industry events is presented at Attachment B.

The ICTIIP Division has also been involved in all the GDAA Industry Roundtable forums conducted so far. This forum, chaired by GDAA, also has membership drawn from Austrade, IA and State/Territory Governments and discusses issues affecting the growth of the industry and ways to promote and grow the industry. Federal and State Government, not DCITA, support was recently provided to the GDAA to have a Technology Australia stand at E3 a major computer games expo held in the USA each year. A copy of the '*Technology Australia Games Downunder E3 Expo 2003*' brochure is available as hard copy or electronic copy.

The ICT Framework for the Future report *Enabling our Future* focuses on key elements in Australia's innovation infrastructure that will support longer term development of industry and the growth of a strategic national ICT capability. Key themes of the Report's recommendations are leadership, research and development, infrastructure, skills and enhancing the ICT capacity through attracting and embedding investment in high valued added activities and building innovative SMEs.

The capability mapping work for the Report identified several Australian clusters including the computer/video games clusters in Victoria, Queensland and the Australian Capital Territory.

In addition, McKinsey and Company's report *Australia: Winning in the Global ICT Industry* addressed the emerging market of consumer applications which includes digital entertainment, games and gaming. Their analysis identified three future trends within this market:

- A variety of consumer devices will continue to exist such as games consoles and set top boxes;
- The market will continue to fragment, based upon a hit and miss success and the freelance nature of the industry; and
- The publishing role will continue to consolidate reflecting the large scale of publishing houses.

The Report *Enabling our Future* and associated papers can be found on line at http://www.dcita.gov.au/Article/0,,0_1-2_11-4_114035,00.html.

The $37 million Building on IT Strengths (BITS) Advanced Networks Program (ANP) supports the development, trialing and demonstration of advanced networks, experimental networks and test beds in Australia. The program's objective is to contribute to the development of advanced network infrastructure that will deliver long term benefits to the Australian economy, in particular by supporting progress towards the establishment of a national advanced backbone network.

The three successful projects were announced in May 2001. One of the successful projects is the $14 million Centre for Networking Technologies for the Information Economy (CeNTIE), a CSIRO led consortium including Nortel Networks, IP1 Telecommunications, the UNSW, UTS and the WA Interactive Virtual Environments Centre (IVEC). CeNTIE's aim is to build an advanced optical fibre network for research into networking technologies that will enable next generation information economy business systems. Its research is driven in part by four Focus Groups in Telehealth, Media Systems, Telecollaboration and Information Brokering.

The Media Systems Focus Group includes representatives from Australia's film post-production industry. CeNTIE has constructed a Gigabit-capacity fibre testbed for industry members in Sydney. Members can use the testbed to trial applications and conduct pre-commercial work on projects, for example, real-time collaborative film editing. Cooperation between businesses on projects will be facilitated by CeNTIE's Extranet on Demand technology, which is being commercialised by the CSIRO through an agreement with Nortel Networks.

CONCLUSION

In summary, portfolio support for these industries can be described as wide-ranging, from content creation and training through to facilitation of finance and support of access to appropriate infrastructure. This is underpinned by a strong basis in research and policy development.

DCITA enjoys significant responsibility for the industries which are the subject of this inquiry, and is in a good position to outline the breadth and depth of the Commonwealth Government's support for these industries. Other departments are active in industry assistance and development programs which are, or have the potential to be, of assistance to these industries. Attachment A is a survey of these programs. Whilst perhaps not fully comprehensive, it offers a perspective on the variety of Commonwealth support available.