

AMBIENCE ENTERTAINMENT
ATLAB AUSTRALIA
THE OMNILAB GROUP
PANAVISION ASIA PACIFIC
SPECTRUM FILMS

SUBMISSION TO THE HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON COMMUNICATIONS
INFORMATION TECHNOLOGY AND THE ARTS

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

18th September 2003

INTRODUCTION

The following submission was prepared by Ambience Entertainment, Atlab Australia, The Omnilab Group, Panavision Asia Pacific and Spectrum Films, which represent a combined investment in technology and facilities of at least A\$150 million and employ over 500 highly trained and experienced engineers, technicians and staff, to the House of Representatives Standing Committee on Communications, Information Technology and the Arts in response to the call for public comment on the future opportunities for Australia's film, animation, special effects and electronic games industries.

It has been estimated that over A\$ 1 billion is invested in infrastructure (studios, facilities and post-production houses) in Sydney. Again, it is important to appreciate that the knowledge that is really valuable in the film business is in people's heads...and that knowledge (corporate memory) is at risk of being lost or walking out the door every single day depending on the economic conditions in the industry.

Ambience Entertainment Group

Established in 1989 in Sydney, Australia, **Ambience Entertainment** conceive, develop and produce moving image communications designed to provide revenue, brand awareness, rating and entertainment for clients and consumers. A multi-award winning visual effects and design company servicing the advertising, film and television industries worldwide, Ambience are also Australia's leading broadcast design company having created and produced branding for the **Nine Network, TEN's Sports Tonight, Nine' A Current Affair, Showtime, Movie Network, and Arena**. They are currently branding **UKTV** and **14 separate channels** for Malaysia's leading pay TV platform **Astro TV**. They are also expanding this broadcast design business into North America.

In the commercials production sector, their creative and business reputation has been earned with blue chip international clients such as **Toyota, Sony, Coca Cola, Rothschilds, Cadbury, Heineken, Volvo, Honda, AOL Time Warner**, to name but a few.

In the fiercely competitive post, design and effects industry, Ambience have aggressively pursued a wide range of clients and projects from around the world and in particular through dedicated business development teams covering North America and Japan with offices in New York and Tokyo. Ambience Entertainment have leveraged our exceptional reputation for originality and quality to develop our own distinctive intellectual property in television and film as well.

Atlab Australia

Atlab Australia is internationally renowned as one of the world's finest motion picture film laboratories for more than 75 years providing quality and service to the Australian and international film industries.

The Matrix, Moulin Rouge, Strictly Ballroom are among a vast number of film credits.

The Atlab Group has facilities in Sydney, Melbourne, Queensland and Auckland, New Zealand, providing 24 hour access to local and international film production companies.

The Omnilab Group

The Omnilab Group is one of Australia's largest post - production companies and facilitators of production and playout services in Australia, servicing both local and major international markets, the Group fuses the world's best creative artists, producers and technicians with state-of-the-art technological facilities to achieve world-class results.

With five divisions linked via a fibre optic network across four sites in Artarmon, Crows Nest, St. Leonards and North Ryde, the Omnilab Group delivers intelligent solutions for feature films, television series, television commercials, and broadcast design. The Group was founded after two of the original strongholds in post production joined forces in 1999, **Omnicon** and **Videolab**, who collectively had been operating for over 40 years united to grow its film and television services to the local and international markets. Omnilab has invested heavily in increasing its capability to work in HD, 2K and 4K.

The LaB Sydney:	Multi-resolution scanning, grading and visual effects creation and supervision, production and composition.
mesh22:	Design, visual effects and animation.
Cornerpost:	Online and offline editing, music composition and sound design.
The Playroom Sydney:	Facilitator of production and playout services for Australian Pay TV.
DubSat	50% owner of the content manager and distributor, DubSat. Responsible for over 60% of all TVC delivery around Australia.

All divisions operate as a fluid unit, backed up by highly skilled engineers and IT support. They are also conveniently located within easy reach of central Sydney.

Continually investing in the industry in both people and technology, the Omnilab Group has a reputation for style, innovation and creativity and utilises the most extensive and technologically advanced range of digital services in Australia. As a team, the Group pulls together resources and expertise with commercial and strategic knowledge to produce optimum quality results in SD, HD, 2K/4K. Clients gain access to an award-winning team of designers, producers, colourists, composers and animators who can guide

them seamlessly through every stage of the process.

Recognising the benefits of building long-term collaborative relationships where client visions and goals for success are shared equally by experienced staff, the Omnilab Group values customer focused solutions, supported by outstanding processes and project management.

Panavision Asia Pacific

Panavision Asia Pacific was set up in 1985 and since that date has serviced the great majority of feature films made in Australia.

The Group rents (and sells where required) cameras, lights, grip & audio equipment to productions in the film & TV industries. As well as providing equipment from the domestic fleet, Panavision has the facility to source equipment from many overseas suppliers including sister companies in US, Canada & Europe.

Credits include 'The Matrix', 'Moulin Rouge', 'Strictly Ballroom' 'Peter Pan' & 'Star Wars'.

The Panavision Group has facilities in Sydney, Melbourne, Gold Coast in Australia and Auckland & Wellington in New Zealand, It provides 24 hour access to local and international film production companies.

Spectrum Films

Spectrum Films is Australia's premier post-production facility. Entering its' fortieth year, it has been the post-production facility of choice for the majority of Australian and International film-makers.

Originally located in Willoughby, a suburb on Sydney's North Shore, Spectrum recently widened its' horizons and established a post facility at Fox Studios Australia. This facility offers a wide range of picture and sound editing options as well as providing the latest, technology has to offer.

In the forty years of post-production, it has serviced over 400 local and international feature films, as well as numerous television projects.

Spectrum has played an integral part in the establishment of Australian film industry investing in Phillip Noyce's **Newsfront** and Gillian Armstrong's **My Brilliant Career**. More recently, it has

serviced the likes of **The Matrix**, **Mission Impossible 2**, **The Truman Show** and the **Farscape television series**.

EXECUTIVE SUMMARY

The real economic challenge facing a small film producing nation, such as Australia, is to increase the potential value of what our creative and technical talent (intellectual capital) can add to the global economy by enhancing their skills and capacities and by improving our means (marketing and distribution) of linking those skills and capacities to the world market.

We strongly recommend the Coalition Government's introduce its "whole of industry" approach to the Australian film industry sectors without further delay as outlined in 'Arts for All – Our future action plan' for the 2001 Federal Election.

Film is the key driver of the creative economy. Media and entertainment have moved beyond culture to become the driving force of the global economy according to Michael J. Wolf, Partner, McKinsey & Co., New York.

The core function of the Australian Film Commission, Film Finance Corporation and the Australian Film, Television and Radio School is to help build a stable and growing industry – not to run one.

We must stop talking about the Australian film industry and start considering how to integrate our film industries – feature films, television, commercials, documentaries, studios and post-production houses, cinema exhibition and distribution, free-to-air networks and cable, DVD distribution companies etc.

We need to stimulate the growth of an industry that embraces the international market. At the same time, we must maintain an environment which supports the production of Australian films of enduring cultural significance. **It's not either/or. It's both.**

It's time for a reality check and a time for reinvention.

This means reinventing Australia as a financial and film production hub – a creative core.

A film hub which is a natural destination for international investment. A film hub which is a natural supplier of skills and services to the regional and international film market. A film hub which consistently creates Australian films that attract worldwide distribution and large audiences, while still using subsidy to support cultural production and new talent.

How do we make it achievable?

By reinvention. If we are to succeed, what is needed is not mere change, but transformation. And not transformation in one sector, but at every level of the Australian film business.

How can the Government help the industry achieve that transformation?

We must make our crucial financial incentives much more flexible.

We need to revise the definition of an Australian film, based on early British legislation, finding ways to recast and reconceptualise it to reflect the fact that actual production increasingly will take place in countries with a lower cost base than ours.

We are not one film industry, but many industries. One solution doesn't fit all;

We need a robust financial and production infrastructure that will enable us to make those films here and around the world and also compete in the world marketplace;

In the immediate future, we are going to have to compete on the basis of creative and artistic talent and technical skills, even more than costs, so we need to rapidly expand the quality of our talent and skills base because it is the life-force that will guarantee our ability to make films.

We strongly recommend the Government create a coherent training strategy for film, organised at the centre, but delivered at colleges and training schools around the country. A strategy in which the Australian Film, Television and Radio School, operating under the auspice of the Department of Communications, Information Technology and the Arts, has a prominent role.

We must begin to view the world beyond Australia.

We need to encourage greater Australian involvement in regional and international film production, by creating strategic alliances with countries in the Asian time zone, particularly South Korea, Japan, China, India, Philippines, Thailand and Vietnam who are already playing host to big-budget productions and are hungry for more, at the same time ensuring that Australian talent – technicians and craftspeople – work on these films.

"We have over time invested in great Australian films but are more interested in creating a sustainable industry through co-operation locally and internationally. Whether this be on a short term company to company project by project basis or on a long term country to country alliance" says Christopher Mapp, Executive Director, The Omnilab Group.

We will need to strengthen our traditional links with the American and European industries at every level; encouraging them to invest in production here in order to develop our infrastructure to the benefit of jobs and skills – even in an increasingly competitive environment.

In Asia, it will mean focussing on the obvious benefits of being part of the fastest growing region in the world. Encouraging financial bridges with Asia's major film companies across the region, and bringing additional investment into Australia. And, crucially, we must increase our presence at film festivals and forums throughout the Region.

We need the Government to examine whether there are existing fiscal incentives which might be adapted to stimulate investment into the infrastructure, most notably into post-production companies.

There is more and more evidence that components of key infrastructure including sets, systems, equipment & staff/operators are being imported for productions filmed in Australia. In particular on the equipment side importation is used not because there is a lack of domestic availability but as a means by overseas producers to minimise dependence on local suppliers so as to create so called competition and by definition reduce production costs.

PROPOSAL

We wish to set out a vision of an industry that is a strong and confident player in an increasingly competitive world. **An industry that reflects the new realities of today's global market.**

The Australian film industry is not in need of quick fixes and band-aids if we are to succeed on the world stage. We will strongly argue it needs nothing less than a far-reaching re-invention.

The submission will be in three parts:

- ◆ First, how did this industry develop and what can we learn from our recent history?
- ◆ Second, what kind of film industry does Australia have now?
- ◆ Third, what kind of film industry should we be aiming to create in order to fulfil our creative and industrial/technical potential, and how do we – the industry, Commonwealth Government and the Federal and State film bodies – work together to create it?

Cinema is an immensely powerful medium at the heart of Australia's creative economy. It combines artistic creativity and technical innovation (the **Panavision/Frazier Lens System**) to entertain, inspire, challenge and inform. Films and television programs help to shape the way we see and understand the world, how we see ourselves, and how the world sees us. Film promotes ideas and understanding in a way that no other medium can or does.

Hundreds of millions of people around the world have seen a Peter Weir, Fred Schepisi, Bruce Beresford, George Miller, Phil Noyce, Scott Hicks, Baz Luhrmann, Jane Campion or Paul J. Hogan film using Australian creativity and ingenuity.

Film is the key driver of the creative economy. (See "*The Rise of the Creative Class*" by Richard Florida, Basic Books, 2002, and his concept of the "creative cluster", combining the three essential elements of venture capital, technology and a cultural/social milieu, as the basis for renewed economic development.)

The audience for film, in almost every country in the world, continues to grow – at the cinema, on television, and especially, on DVD – the fastest growing consumer electronics product of all time.

Box-Office revenues in Australia rose 4 % in 2002 to hit A\$844.8 million and achieve another record-breaking year. Given that annual falls have only been registered once in the past 15 years, the positive result was not a surprise. We owe most of that rise in admissions to the investment of hundreds of millions of dollars by exhibitors in new multiplexes, who no doubt would like admissions to go even higher.

While the country's nearly 20 million people are visiting cinemas more than ever, there is nothing particularly Australian about what films they most want to see. In fact, it was a poor year for Australian films with not one exceeding A\$ 7.5 million.

While recognising that all of us – industry, government and federal and state film bodies – are prisoners of history – whether we like it or not – now is the time to raise the bar on our ambitions.

For despite the Commonwealth Government's considerable success in providing public subsidy for film production, there is still a mountain to climb before we can have anything like a truly sustainable film industry.

Because bluntly, direct subsidy solely for production will never, ever form the basis of a successful film industry – even if we double, triple, or quadruple the money presently on offer.

The core function of the Australian Film Commission, Film Finance Corporation and the Australian Film, Television and Radio School is to help build a stable and growing industry – not to run one – and it's in that spirit we'd like to look at the history of film over the past two decades, and see what we can learn from history.

The Past

If we go back 20 years, the industry was full of promise; well over 100 feature films had been produced before 1980, although very few had shown a profit and Peter Martin, an AFC Board Member was

quoted as saying, "we have to look to the global aspects of the industry." He said, "It's clear we can't rely on the local market."

David Williams, Managing Director of the Greater Union Organisation, warned that not enough time was being spent on the screenplay and that this had caused too many problems during the seventies. His company was concerned about the depth of technical talent in the industry.

Williams was delighted by the evidence of real talent in the industry, "I only hope they stay here and continue, but to do that we've got to look after them."

In April 1979, the Australian Film Commission, under pressure from the Film and Television Production Association, the production industry's national employer organisation, representing feature film and television producers and production companies, producers of television commercials, documentary filmmakers and facility and service companies such as Atlab, Samuelson's/Panavision and Spectrum Films, appointed Peat, Marwick and Mitchell (now KPMG) to undertake a management consultancy review of the Commission's activities.

The consultant's brief proposed three objectives for the study:

- ◆ evaluate the effectiveness of the procedures and policies of the AFC,
- ◆ assess present trends within the film industry and their implications for the future role of the AFC, and
- ◆ develop recommendations for the future development of the industry and the roles of the AFC for the next five years.

The report, "Towards a More Effective Commission – The AFC in the 1980's" was delivered in October 1979. As far as we know there has been no similar follow up review/s despite the massive changes in the international marketplace caused by globalisation and the democratisation of information technology.

In 1981, the Coalition Government introduced new taxation incentives for private investment in feature films, television programs and documentaries. There is no doubt that the introduction of the 10BA concessions was critical to the resurgence of the Australian film industry.

In 1988, the Hawke-Keating Government established the Film Finance Corporation, following the end of the very lucrative 10BA concessions, to "strengthen Australia's cultural identity." Variety reported, May 5-11, 2003, that the FFC had "sunk coin into 158 films in 14 years; eight have returned a profit."

In June 1992, the House of Representatives Standing Committee on Environment, Recreation and the Arts delivered its Report on the Moving Pictures Inquiry on the performance of Australian films in Australian and overseas markets.

More than twice as many feature films were made in Australia in the 1980's than in the 1970's. The highest level of production was in 1987, when 47 feature films were produced. The next year, when 21 films were produced, saw the lowest level for the decade. In all 334 feature films were made in Australia between 1980 and 1990.

In January 1997 David Gonski delivered his "Review of Commonwealth assistance to the film industry," which recommended, among others, the licensing of a limited number of companies (FLICs) to raise a designated amount of concessional (100%) capital. The Gonski Review envisaged the capital base of the FLICs would be approx. A\$ 50 million per year over three years, to match the annual appropriation to the FFC.

Two companies, Macquarie Film Corporation and Content Capital were chosen in 2000, for a trial program to raise A\$ 20 million each. After two years Macquarie raised approx A\$ 15 million and Content Capital A\$ 5 million, half the original designated amount.

Under pressure from Warner Bros. and News Corporation the Coalition Government introduced the 12.5% tax rebate for large-scale film productions to shoot in Australia, creating jobs for technicians and craftspeople from 4 September 2001.

However because of the nature of overseas runaway productions the film tax offset incentive provides no real direct benefit to the local post-production companies which rely on domestic production, because post-production is usually carried out at the director's/producer's home base.

Over recent times a trend has been developing that has seen Hollywood productions bringing their own editing equipment with them to Australia. It started with Star Wars, was

adopted by Matrix 2 & 3, followed by Peter Pan earlier this year and hopefully ending with the latest Star Wars which is currently shooting on the Fox lot. However, if this practise is allowed to continue it will negatively impact on local post-production providers by effectively locking them out of the inward investment market.

In our opinion this situation can easily be reversed by amending relevant tax legislation. Foreign productions taking advantage of local tax relief should be discouraged from picking the eyes out of a production deal. Rather they need to have an eye on the bigger picture which, along with giving them more bang for their buck, will help the long term viability of the local film business in general and the post sector in particular.

It is different for television series production where post – production is carried out as principal photography and production progresses. **For this reason we recommend that the 12.5% tax rebate offset incentive be extended to television series production.**

Again, it is important that the tax rebate offset does not create a sense of dependency in the industry.

What our recent history teaches us is this: as a nation we've got an uncanny ability to produce world-class filmmaking talent. We too readily boast of our Oscar triumphs,(Nicole Kidman, best actress, Andrew Lesnie, cinematography) our Cannes Palme d'Or's (Jane Campion) and Venice Lions (Peter Long) – proof that we can make outstanding films, whether here or within the Hollywood juggernaut, or anywhere we choose to tell our stories and make our films. It's how we define our success, but although this makes headlines for newspapers, it's not nearly as important as the vast numbers of people who are employed whose work creates those headlines.

Unfortunately for Australia those triumphs have never been supported by significant structures. If we'd had a proper film policy, with industry (not just brief case carrying film producers with no commitment to the industry beyond a script or two) and Government working together in partnership, those structures would have been created. But they haven't been.

The Present

So what kind of film industry do we have right now?
Let's start with our strengths.

First, we have outstanding studios and facilities companies, world-class laboratory technicians and digital post-production houses – studios and facilities which have been a magnet for inward investment, principally from the US (The Matrix Trilogy, Moulin Rouge, and Star Wars) but also from the UK, India, China and S E Asia.

Second, we still have, just about, the finest technicians and craftspeople anywhere – although their numbers are diminishing at a worrying rate because of the lack of artistic and job opportunities in Australia.

Third, we have outstanding creative skills – we've got superb writers, directors, cinematographers and musicians not to mention the creators of hugely valuable intellectual properties such as Bananas in Pyjamas.

The problem is that most of them work overseas.

We could add a **fourth**: we have the English language – not just the same language of American movies, but of the Internet.

And **fifthly** we are perceived as a safe US "friendly" environment which in most locations where films are made can provide levels of accommodation considered acceptable to US talent

And **sixth** we are able with New Zealand, to provide the full range of locations from deserts to snow capped mountains in addition to supportive local & state governments

But frankly, if you take a look at the reality of our industry, it's apparent that we've failed to use our strengths to our real advantage.

The basic truth of the film industry is that it is a distribution-led business. It has been since Adolph Zukor, William Fox, Carl Laemmle and the rest of the pioneers planted their flags out west. The formula used now by Hollywood majors is exactly the same as it has been for 80 years. The Hollywood studio's mathematics are simple: money spent on production is more than earned back in distribution, profits are taken and the balance is used to help finance the production and distribution of more films.

Make no mistake, international distribution is where the real money is made in the film industry.

The global market for film is estimated to be worth US\$ 60 billion annually. A market totally dominated by American cinema. Yet instead of focussing on our strengths or addressing our biggest weakness – getting strong Australian films into global distribution (**Shine was the last major international success in 1996**) – much of the film industry has developed a serious production habit for the last 20 years.

And like any addict, it has obsessively gone about feeding its addiction in any way that it can.

But now the years of plenty are over and presently it's harder to close the finance on independent films than it has been for many years.

There's a critical shortage of finance in the market which must be addressed as a matter of urgency. It has been estimated that less than A\$ 30 million was raised from private investors in 2002/2003 for film and television production. Murray Forrest, Managing Director of film lab Atlab, says the number of local films processed by his facility in the past 12 months was the lowest for many years.

Mike Healey, Chief Executive, Panavision Asia Pacific, added, there is more and more evidence that components of key infrastructure including sets, systems, equipment & staff/operators are being imported for productions filmed in Australia.

In particular on the equipment side importation is used not because there is a lack of domestic availability but as a means by overseas producers to minimise dependence on local suppliers so as to create so called competition and by definition reduce production costs.

Matthew Street, Managing Director of Ambience Entertainment said that Visual Effects (VFX) also says in his experience post production for local films is mainly required to be done on a non-commercial basis, often below cost as local producers are struggling to raise enough funds to make the production budget commercially viable. Add to this that nearly all runaway films from the US who have commercial budgets do not spend it with Australian VFX service providers, means that there is major shortages in running viable post VFX facilities in Australia.

And this year doesn't look any better.

We had the boom and now we've got the bust. Sound familiar?

To sum up, here's the paradox of our industry: worldwide demand for film has never been stronger. Yet our ability to cash in on that demand remains almost as weak as it was two decades ago. The audience has grown. But much of our industry has failed to respond to that growth.

There's been little consistency of performance or growth across the Australian industry as a whole.

That's why we need to reinvent our industry, and make it fit to face the future.

The Future

So what do we want that future to look like?

We have a Government that says it is willing to take "a whole of industry approach to the Australian film sector," but unwilling to make the necessary reforms to give us our best shot in years at creating a sustainable film industry.

We must evolve – and quickly – or this window of opportunity will slam shut in our faces. The results may not be apparent in the short term or even in the medium term, but reinvention of our industry must start now.

We need to abandon forever the "Dad and Dave" vision of an Australian industry comprised of small Australian film companies delivering parochial Australian films. That, we suspect, is what most people think of when they talk of a "sustainable" Australian film industry. Well, it's time for another reality check. That "Australian" film industry never existed, and in the age of globalisation, it never will.

We need to stimulate the growth of an industry that embraces the international market. At the same time, we must maintain an environment which supports the production of Australian films of enduring cultural significance. It's not either/or. It's both.

We must stop talking about the Australian film industry and start considering how to integrate our film industries – feature films, television, commercials, documentaries, studios and post-

production houses, cinema exhibition and distribution, free-to-air networks and cable, DVD distribution companies etc.

We need to encourage investment into our film industry from anywhere in the world – without worrying about the nationality of money or tearing up the roots of cultural film production.

Also, now is the time, once and for all, to recognise that our industry's obsession with public funding for production is taking us nowhere. This might seem like kicking someone when they're down, but it's not. **As crucial as it is for our short term survival public funding solely for production is not the answer to the industry's larger structural problems.**

We know it's tough out there right now. We too work at the sharp end of production and we are fully aware that people are suffering in our industry.

But we've had over 30 years of Commonwealth and State Government support/subsidy and 25 years of production-focussed tax concessions.

Neither has delivered the structural changes that we need in order to deliver the consistent performance and growth to prevent a crisis every five years.

So let's accept that production will never be a major profit centre. The idea of a self-sustaining, purely Australian film industry has been the dream for Government and industry for many years. But the idea of building a stable of rights-owning film production companies is a fantasy. 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. Producers are a form of talent; they take a fee for their services just like directors, cinematographers, production designers and everyone else. **On their own, producers will never be able to deliver the sustainable film industry we need.**

It's time for that reality check and a time for reinvention

This means reinventing Australia as a financial and film production hub – a creative core.

A film hub which is a natural destination for international investment. A film hub which is a natural supplier of skills and services to the regional and international film market. A film hub which consistently creates Australian films that attract worldwide distribution and large audiences, while still using subsidy to support cultural production and new talent.

If we are going to make that vision of the hub a reality, we need three key ingredients:

First, distribution. This means an industry that is led by distribution. Production led by distribution, not the other way round. Pull, not push. Robust distributors and sales agents with a serious appetite for investing in Australian films and helping to make them a success all around the world. We have to stop defining success by how well Australian films perform in Newtown or Carlton.

This is a big world – **really successful films like Babe can make up to 75% of their revenues outside Australia. Very few films can make sufficient returns based on purely Australian distribution. The best that can be expected in any film market is recovery within the domestic market of base production costs and then international distribution providing the profits.**

Second, skills. The best-equipped, most highly-skilled, most flexible film workforce in the world.

Third, infrastructure. International competitiveness requires state-of-the-art studios, such as the new Trackdown Scoring Stage and post-production companies, complemented by outstanding service companies operating at every level of the international film business.

Distribution, skills and infrastructure – the keys to making Australia a filmed entertainment hub for the 21st century.

How do we make it achievable?

By reinvention. If we are to succeed, what is needed is not mere change, but transformation. And not transformation in one sector, but at every level of the Australian film business.

It won't be easy, and it won't be quick. But if we don't try, then we believe we won't survive. It really is as simple as that.

So what do we need to make that regional film hub a reality?

In a successful industry, distribution pulls production behind it. Distribution pull, not production push. But public policy in Australia has always focussed on production, including the taxation concessions, appropriations to the Australian Film Commission, Film Finance Corporation, Film Australia (previously the Commonwealth Film Unit where many filmmakers got their start) and the Australian Film, Television and Radio School. So how can we effect a shift of emphasis, thereby increasing the strength of both the distribution and the production sectors?

The Government has a number of levers it can pull, the most powerful of which is fiscal policy.

Making sure we have co-production Treaties / Agreements with our Asian Neighbours.

The more treaties we have the more we will encourage global film producers to seek Australian Producer / Investor partners to help get their projects up. It will also encourage the creation of Sales / Distribution companies to form these entities. Gary Hamilton's Arc Light in association with Spice Factory out of the UK. There are a lot of wealthy Australians who are investing in offshore films which focus on a global market place. The Australia post-production sector is missing out on Australian private equity investment as the productions financed with this equity are being done offshore.

Unfortunately co production treaties are tied with much more detailed general trade treaties which can take many years to negotiate. So one solution is to "unlink" the film production treaty from the general trade agreements so that film projects can commence more quickly.

Arc Light & Spice Factory are demonstrating that there is developing a genre of film producers who are chasing profitable projects around the world. A solution to the film industries' problems might be to provide supportive environments such as the "Regional Head Office" arrangements already being offered to multinationals who relocate to Australia

If we don't focus on strengthening distribution for our films, then soon we might not have a production sector at all.

The existing taxation concessions have delivered many significant benefits; generating jobs, bring fresh blood into the industry and delivering a significant number of films enjoyed by audiences.

However, they haven't produced structural change or improved the distribution of Australian films.

In any event, the international landscape of film production is in the middle of a colossal transformation. This alone demands that we have a review. Taxation incentives that were manna from heaven in 1978 (10B) and 1981 (10BA) will not be right for the next stage of our evolution.

We believe that the locomotive for any new taxation incentives, including the reinstatement of the FLIC proposal, must relate to film distribution – linking local/regional production to international distribution.

The second element of the film hub is skills. Again, a self-evident truth – we simply won't have an industry at all unless we invest in people. We need good new writers, new editors, new production designers, new technicians, new inventors & new equipment operators coming through.

At the moment, we are scattering our efforts in too many directions at once. We understand there's presently no attempt to make the courses at the various colleges, private training centres, universities and TAFE, which operate under the auspice of the Department of Education, complement one another, and no attempt to offer a structured entry plan into our industry for all of the different creative, technical and craft roles.

Compare this to the recent announcement by the UK Film Council to provide A\$ 125 million to overhaul film training including the establishment of a string of film schools to **improve creative and business skills**. (Screen Daily 10th September 2003)

We strongly recommend the Government create a coherent training strategy for film, organised at the centre, but delivered at colleges and training schools around the country. A strategy in which the Australian Film, Television and Radio School, operating under the auspice of the Department of Communications, Information Technology and the Arts, has a prominent role.

Again, if we're to build a world-class film industry, we also need to draw on all the talents available to us; we have to broaden access to our industry to all sections of our society. Not just for cultural reasons, but for straightforward commercial ones.

Now to the key element of the film hub: infrastructure.

Everything from our studios, to post-production houses, to labs, to camera hire, to costume hire – everything that is needed for a film to get made. Without which, no industry can function.

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. Around the world, investment is pouring into new film studios from Tokyo and Shanghai to Thailand and Fiji to Melbourne and Cape Town, and dozens of other Governments are dreaming up new tax incentives seemingly month by month in an effort to attract big-budget Hollywood movies. The world is suddenly a much more competitive place.

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.

Singapore is establishing itself as a global media city and promoting itself as a global IP hub through high profile global campaigns such as the attempt to separate the adult Iranian twins a few months ago. And Shanghai is fast becoming the preferred financial centre of North Asia.

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.

How can the Government help the industry achieve that transformation?

We must make our crucial financial incentives much more flexible.

We need to revise the definition of an Australian film, based on early British legislation, finding ways to recast and reconceptualise

it to reflect the fact that actual production increasingly will take place in countries with a lower cost base than ours.

We must begin to view the world beyond Australia.

We need to encourage greater Australian involvement in regional and international film production, by creating strategic alliances with countries in the Asian time zone, particularly South Korea, Japan, China, India, Philippines, Thailand and Vietnam who are already playing host to big-budget productions and are hungry for more, at the same time ensuring that Australian talent – technicians and craftspeople – work on these films.

Film production, David Lean (The Bridge on the River Kwai, Lawrence of Arabia, Doctor Zhivago) once said, is the "last of the travelling circuses".

We will need to strengthen our traditional links with the American and European industries at every level; encouraging them to invest in production here in order to develop our infrastructure to the benefit of jobs and skills – even in an increasingly competitive environment.

In Asia, it will mean focussing on the obvious benefits of being part of the fastest growing region in the world. Encouraging financial bridges with Asia's major film companies across the region, and bringing additional investment into Australia. And, crucially, we must increase our presence at film festivals and forums throughout the Region.

There are many reasons why we need to maximise our influence in the Region.

America's entertainment business is becoming more and more dependent on foreign markets. Last year, business for American films overseas fell by 16% against local product. Fewer and fewer films are being made in the US, and fewer and fewer films are being funded by the US. Last year, one-third of all Hollywood products were funded by German banks. In 10 years time, most of the funding will be Asian. And the next big studio will be Asian.

As the Treasurer Peter Costello made clear in addressing the Asian Society's annual meeting late last year; "leave aside the geographic question about where Asia starts and finishes. The point here is that Australians are part of Asia."

Professor Tony Millner of the Australian National University reinforced this recently in an interview on Radio National, "Australia is often pushing uphill in Asia. But ...the Australian leadership needs to prepare our community for the long haul."

The World Bank estimates Greater China will overtake the European Union in five years, with a combined gross domestic product of US\$ 12 trillion. By that yardstick, it would be nearly triple the size of Japan.

We need the Government to examine whether there are existing fiscal incentives which might be adapted to stimulate investment into the infrastructure, most notably into post-production companies.

As Christopher Mapp, Executive Director, The Omnilab Group, says, "we as the Mapp's have invested large amounts of money into infrastructure for the post production film industry, and like others are very strong believers in training people through the ranks, from runners right through to international stars. This does however continually cause concern. We are continually losing staff to work on big budget films like "Lord of the Rings" and "Star Wars".

It is also tough when you lose as many as 7.5% of your key staff each time a big budget film is produced overseas, simply because you have some of the world's best staff. The effort of training local talent is lost to overseas competitors. Increased levels of activity in commercially viable work in the post production business would assist keeping this talent in the country, which in turn would assist our capabilities to produce feature films with local talent. Australia has become known as a great resource of talent for productions that occur elsewhere in the world.

CONCLUSION

To achieve our aims, we need the Government to act in a cohesive 'whole of government' way so that "the industry" can work with different departments to achieve our objectives – without running into turf wars every five minutes. If "the industry" is to have a real chance of creating a new and meaningful film industry in this

country we will need to work not only with the Department of Communications, Information and the Arts, but also Treasury, Australian Tax Office, Department of Foreign Affairs and Trade/Austrade, Department of Defence and other parts of Government.

Experience suggests this is not always easy.

- ◆ We need distribution-led companies to carve out an Australian share of the US\$ 60 billion world market and we can't do this simply by staying at home;
- ◆ We have to encourage inward investment into the film business and not worry about the nationality of money;
- ◆ We have to redefine what an Australian film is;
- ◆ We are not one film industry, but many industries. One solution doesn't fit all;
- ◆ We need a robust financial and production infrastructure that will enable us to make those films here and around the world and also compete in the world marketplace;
- ◆ In the immediate future, we are going to have to compete on the basis of creative and artistic talent and technical skills, even more than costs, so we need to rapidly expand the quality of our talent and skills base because it is the life-force that will guarantee our ability to make films.

We are at a crossroad. We can retreat back to "parochial Australia" or we can mount a sustained assault on wider horizons. The choice is there.

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NOTE: COMPANY BROCHURES ARE INCLUDED AS ATTACHMENTS.