Submission in response to Australian and Children's Screen Content Review

Joint Submission from the Australian Film & TV Bodies
September 27, 2017

Table of Contents

Executive Summary

The Australian Film & TV Bodies[1] welcome the opportunity to respond to the Australian and Children's Screen Content Review. Over the past five years, member companies of the Australian Film & TV Bodies have acquired, marketed and distributed 28 Australian films, representing 58% of the total box office takings for Australian films over that period. We also distribute the majority of all Australian TV content on physical home entertainment following its original broadcast. We have a passion for Australian content and are eager to work with the Government to ensure the industry's success going forward.

In response to Question 1, we agree with the Government's proposed policy objectives and policy principles. In this submission, we weigh the value to Australia of supporting different types of content in light of the stated primary policy objectives of promoting Australian identity and culture, securing Australian children's content and increasing commercial sustainability.

For the sake of discussion, in response to Question 2 and Question 3, we would suggest that content types/formats be categorized into three main groups based on cost of production per hour: low-cost (below $100,000), medium-cost (between $100,000 and $700,000) and high-cost content (above $700,000).

We suggest that low-cost content, like User Uploaded Content (UUC) on Facebook and YouTube, is being produced in abundance, but does not directly increase the commercial sustainability of the Australian screen industry and, as such, does not require direct support at this stage. Likewise we argue that the majority of content produced on Free to Air TV and Pay TV is medium-cost content and it also is produced in abundance. We suggest that high-value content (such as Australian feature films like Mad Max: Fury Road and feature TV such as Paper Giants, Howzat! and Molly), can play the largest role in both promoting Australian identity and culture and allowing Australia to develop its expertise and have a commercially sustainable screen industry. These high value productions, however, are often accompanied by significant risk and, accordingly, are in need of a higher level of support. We also note the role of attracting major international productions to Australia in developing skills, facilities and capabilities, as well as the economic boost it provides.

In response to Questions 4 and 5, we note that there are divergent views on the role of quotas in promoting Australian content amongst the Australian Film & TV Bodies, but we are all strongly aligned on the important role tax incentives play in supporting the industry. They also align most

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[1] The Australian Film & TV Bodies are made up of the Australian Screen Association (ASA), the Australian Home Entertainment Distributors Association (AHEDA), the Motion Picture Distributors Association of Australia (MPDAA), the National Association of Cinema Operators-Australasia (NACO) and Independent Cinemas Australia (ICA). Further details on members of the Australian Film & TV Bodies can be found in Appendix A. Member companies of the Australian Film & TV Bodies represent a large cross-section of the film and television industry that contributed $5.8 billion to the Australian economy and supported an estimated 46,600 FTE workers in 2012-13. Access Economics, *Economic Contribution of the Film and Television Industry in Australia,* Deloitte Access Economics Pty Limited, (February 2015), <http://screenassociation.com.au/wp-content/uploads/2016/01/ASA_Economic_Contribution_Report.pdf>, p iv.

closely with the market-oriented design principle suggested by the Government. On this basis, we make the following recommendations:

Tax Incentives for Production

Recommendation 1.1: Set production budget thresholds on qualified local scripted productions, for example with an hourly production budget of $700,000 per hour or more, to be eligible for the 40% tax incentive.

Recommendation 1.2: Increase the Location Offset to 30% in order to be competitive with overseas incentives.

Recommendation 1.3: The Location Offset and the PDV Offset should be decoupled so that projects can be filmed and post-produced in Australia.

Recommendation 1.4: The status of streaming services under tax legislation should be clarified to allow such services to be eligible to access the incentives.

In response to Question 6, we suggest that the Government should focus on quality, marketability and discoverability to encourage access by Australians and international audiences to Australian content.

Tax Incentives for Marketing

Recommendation 2.1: We recommend the Government offers tax incentives on eligible marketing spend for qualifying Australian feature films.

To Question 7, we suggest increasing frequency of screen content reviews to every three years, so that policy settings can be adjusted over time as the market dynamics evolve.
Finally, in response to Question 8, we note that if widespread copyright infringement cannot be significantly reduced, the need for reliance on Government support to the sector will increase.

Introduction

Consumers now have more ways to access and enjoy an ever-wider range of content than ever before. New online delivery platforms have made global distribution easier for low-cost content, binge-watching TV series, as movies are released across an ever-growing number of platforms and windows. Devising policy settings for the creation of quality Australian screen content on the basis of the technology used to deliver it to the consumer, or on the basis of traditional versus new online delivery, is ultimately an unhelpful approach, in the context of this review.

Technology has always added consumer features to the ***distribution*** of content, whether that was colour, when we migrated from black and white TV, on-demand viewing of VHS-tapes and DVD's, and now, via platforms such as iTunes, or the on-demand subscription viewing on services such as Stan and Netflix. While these technologies have increased consumer convenience and have contributed to the continued fragmentation of audiences, **only** the ability of a platform to generate market-based funding for that production should matter in the context of this review. Viewed from that perspective, not much has changed.

	Ad-Supported	Subscription	Watch Once	Content Ownership
Who funds content?	Advertiser	Viewer	Viewer	Viewer
Income per view	LOWEST			HIGHEST
Traditional	FTA television	Foxtel	Cinemas Video-rental stores	Retail stores
Recent	Catch-up TV YouTube Facebook	Foxtel Now Fetch TV Netflix Stan Amazon Prime	Video-on-Demand Services (iTunes, Google Play, Telstra T-box, Fetch TV)	Electronic Sell-Through (iTunes, Google Play, Fetch TV)

As you read the above table from left to right, you will note increasingly fewer consumer views are required to finance content production, as the income per view materially increases. A thousand EST transactions net the copyright owner over $4,000, whereas we estimate a thousand YouTube views to be worth $2 on average; even less on Facebook.[2] Change is constant, and it is this fragmented environment that producers seek to balance investment with views and income.

[2] See Appendix B for details.

Responses to Specific Questions

1. Are the policy objectives and design principles articulated in the discussion paper appropriate?

We support the suggested primary policy objectives of promoting Australian identity and culture, securing Australian children's content and increasing commercial sustainability.

Within this framework, there are benefits of promoting Australia's unique culture, given screen content's ability to enhance Australia's soft-power as well as generate tourism income. The UK has recognised that its screen sector has broad benefits, and, accordingly, has aggressively incentivised the creation of high quality content. As the British Council concludes:

> *"In a multipolar, hyper connected world, a country's power is increasingly measured by its ability to inspire and attract citizens of other nations to take an interest in its national story, enjoy its passions, and ultimately respect its values, ideas and aspirations."*[3]

A recent UK report shows the potential to support tourism and conservatively values international core screen tourism in the range of £100 million - £140m in 2014 alone.[4] The report concludes that most of this value comes from high-value popular productions such as *Downton Abbey* and the Harry Potter movies.

We also support the suggested policy principles and the Government's proposal to harness market solutions and competition as far as possible in furtherance of the above aims.

2. What Australian content types or formats is the market likely to deliver and/or fail to deliver in the absence of Government support?

3. What types of Australian screen content should be supported by Australian Government incentives and/or regulation?

We answer questions 2 and 3 together.

Different types of content in the modern media landscape can now be endlessly sub-categorised into genres, lengths, etc. For the sake of clarity, we would suggest that content types/formats be

[3] Kieron Culligan, et al., *As others see us*, (2014) British Council <https://www.britishcouncil.org/sites/default/files/as-others-see-us-report-v3.pdf>.

[4] Report for Creative England in association with VisitEngland, *Quantifying Film and Television Tourism in England*, (2015) Olsberg SPI <http://applications.creativeengland.co.uk/assets/public/resource/140.pdf>.

categorized into three main groups based on cost of production: low-cost, medium-cost and high-cost content.

We define these three groups as follows:

	LOW	MID	HIGH
Volume of Production	"Over 1,000x more content is added by YouTube each day than shown on all broadcast channels"[5]	Commercial FTA broadcasters air 23k hours of Australian content per year.[6]	**TV**: Just over 760 hours (3.3%) of FTA broadcast content is high value content.[7] **Feature Film**; 35 on average past five years[8]
Production Cost per Hour	< $100,000	$100,000 - $700,000	> $700,000
Relative Volume[9]	2,300,000	2,300	100
Typical Business Model	UUC Ad-supported	Broadcast and Digital Ad-supported	User pays
Examples	YouTube Facebook	Most FTA TV Incl. Catch Up	FTA Premium Drama, Pay TV (Foxtel, Fetch SVOD (Stan, Netflix), Transactional (Cinema, TVOD, EST)

It is worth examining the ways in which low, medium and high-cost content meet and fall short of this review's primary policy objectives. This analysis forms a basis for assessing the different ways in which different types of content should be supported.

Low-cost content: the role of User Uploaded Content (UUC) platforms.

Low cost content offers a number of benefits. It can easily be distributed globally as a result of the emergence of UUC platforms such as YouTube and Facebook. The societal benefit of these platforms is that they have lowered the barrier for content creators to "distribute or share" their content, and through that they provide a discovery function, helping new talents get noticed.

As the terms and conditions of these platforms are largely non-negotiable, content creators are price-takers, not price-setters. In general, a UUC career can only be sustained by generating an income separate from the video content (i.e. endorsement, live shows, merchandising etc.) or by

[5] AlphaBeta, *Bigger Picture*: *The new age of screen content* (2016) <http://www.alphabeta.com/wp-content/uploads/2016/12/Google_Bigger-Picture-Report_Dec2016.pdf>.
[6] ACMA, *Australian content compliance results* <https://www.acma.gov.au/Industry/Broadcast/Television/Australian-content/australian-content-compliance-results>.
[7] Ibid 6.
[8] Screen Australia, *Feature film production Summary* <https://www.screenaustralia.gov.au/fact-finders/production-trends/feature-production/all-feature-films>.
[9] This metric aims to show the relative production volume in each category. By equating the 760 hours of high-value TV content to 100, we can show the relative size of each category in terms of quantity of content produced.

using it as the launchpad for a career in media platforms that value content more highly. A blog entitled 'Get Rich or Die Vlogging'[10] makes the point:

> *"The internet may always be equated with The Future, but for most social media stars, it ends up being a stepping stone to the same old metrics of success (if you're lucky). As YouTuber Manning told me, "YouTube is not the end game, it's the foot in the door."*

A 2013 Variety article makes it clear that this discovery function doesn't come for free:

> *"Traditional VOD distribution deals such as those with Apple's iTunes give 70% to the content owner* [as opposed to YouTube's 55% - ed.]. *But YouTube has argued that it operates a very different business, spending millions on servers, bandwidth, localization and other infrastructure to keep the site running.* ***Another factor is that the majority of YouTube's user-generated content does not have advertising, so YouTube must recoup its costs from content that it can monetize****."*[11]

Put differently, the content on UUC platforms that is good enough to attract advertising effectively subsidises the content that is not. This reduces the value of a view. Whilst there are always outliers, an analysis of the average lifetime views per upload from the 250 most successful Australian YouTube channels by total views[12] shows that the average number of views per video uploaded is just over 280,000, with an average estimated income for these popular creators of just over $550 per video uploaded.[13] While this may change over time, as technology costs come down, or as more advertising inventory is filled, today's UUC platforms do not directly improve the commercial sustainability of the screen industry; they primarily serve to provide new talent a pathway towards it.

Medium-cost content: where consumer interest and production cost deliver a sustainable business.

The commercial FTA broadcasters produce Australian content well in excess of their statutory obligations. As reported by ACMA[14], they collectively broadcast 23,000 hours of Australian content in 2016, nearly 60% of which was shown on their primary channels. Seven's Australian content share between 6am and midnight on its primary channel was 72.6%, Nine's 72.0% and Ten's 65.0%.

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[10] Gaby Dunn, *Get Rich or Die Vlogging: The Sad Economics of Internet Fame* (14 Dec 2015) <https://splinternews.com/get-rich-or-die-vlogging-the-sad-economics-of-internet-1793853578>.

[11] Todd Spangler, *YouTube Standardizes Ad-Revenue Split for All Partners, But Offers Upside Potential* (1 Nov 2013) <http://variety.com/2013/digital/news/youtube-standardizes-ad-revenue-split-for-all-partners-but-offers-upside-potential-1200786223/>.

[12] Social Blade, *Top 250 YouTubers in Australia sorted by Video Views* <https://socialblade.com/youtube/top/country/au/mostviewed>.

[13] See Appendix B "The Value of a View".

[14] Ibid 6.

However, just 3.3% of total hours was high-value scripted content[15], with the remainder allocated to news, reality TV and live sports. These categories share one key characteristic – they are appointment-viewing; viewers want to watch them live or near-live, which typically delivers a bigger audience and reduces the chance of leakages as a result of piracy.[16]

One other category has proven to be a continuous feature promoted by these broadcasters – serial dramas such as *Neighbours* and *Home & Away*. These shows have produced some of Australia's biggest actors, and attract big audiences in Australia and abroad. At an average production cost of $290,000 per episode[17], the market continues to function for this medium-cost content type as evidenced by the volume being produced; of the FTA's Top 50 rated programs in 2016, 44 fall into this category.[18]

High-cost content: the challenge of making the numbers work.

Australian Premium TV content

Producing Australian Premium TV content exceeds the cost of acquiring international content significantly, with the average cost per hour between $800,000 and $1.5 million.[19]

Miniseries	$1,370,000
Telemovies	$1,530,000
Children's TV Drama	$880,000

Australian TV shows often perform well relative to overseas scripted content. In the FTA's Top 50 rated programs in 2016, of the six dramas, five were Australian. But as stated above, they just represent 3.3% of all content aired on Free to Air TV channels between 6am and midnight.

Australian Feature Films

With an average cost of $7.15 million, feature films are the costliest audio-visual Australian art form.[20] Since the establishment of Screen Australia, very few feature films have been produced without the support of direct funding or tax incentives. A closer examination shows that none of the 94 films that Screen Australia has invested in over the past six years have recouped their

[15] Ibid 6.
[16] The Conversation, *Are sport broadcast rights worth the money?* (20 Feb 2015) <https://theconversation.com/are-sport-broadcast-rights-worth-the-money-37460>.
[17] Screen Australia, *TV Drama Production: Series and serials production* <https://www.screenaustralia.gov.au/fact-finders/production-trends/tv-drama-production/series-and-serials>.
[18] Arvind Hickman, AdNews analysis: The top 50 TV programs of 2016,(29 Nov 2016) <http://www.adnews.com.au/news/adnews-analysis-the-top-50-tv-programs-of-2016>.
[19] Screen Australia, *Australian TV drama Hours and cost per hour* <https://www.screenaustralia.gov.au/fact-finders/production-trends/tv-drama-production/all-tv-drama/hours-by-format>.
[20] Screen Australia, *Australian feature film production activity* <https://www.screenaustralia.gov.au/fact-finders/production-trends/feature-production/australian-feature-films>.

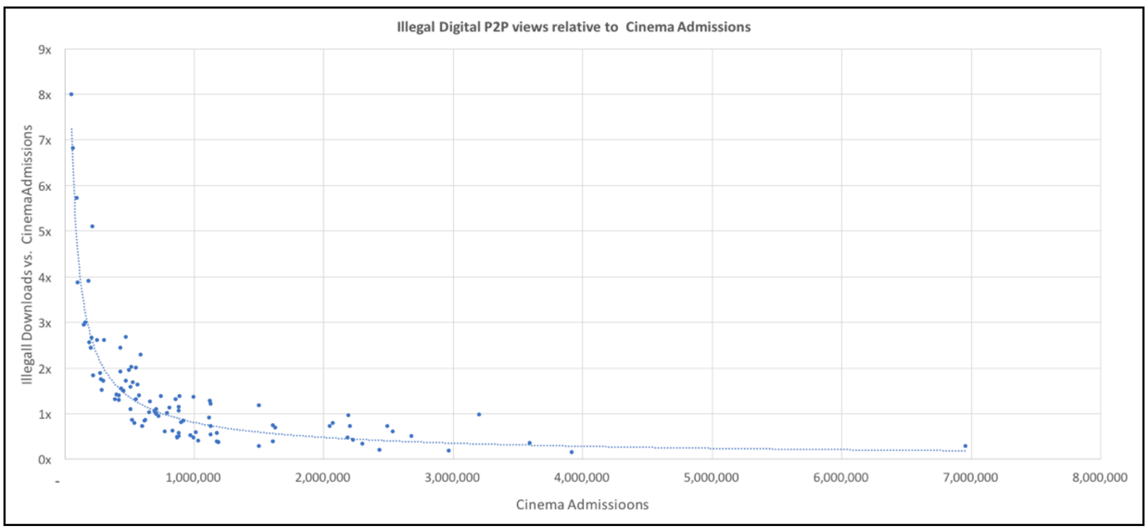
original production budget.[21] The production of Australian features would witness a decline in the absence of Government support.

At the same time, Australian films have shown they can attract significant audiences both here and abroad. As the table below shows, unfortunately many of these views are not monetized as they are illegally downloaded.

Title	Australian Box Office (AU$)	Global Box Office (US$)	Total Illegal Australian downloads	Total Illegal Worldwide Downloads
Hacksaw Ridge	8,810,865	163,332,647	260,951	11,184,636
Dressmaker	20,278,133	21,167,833	213,273	4,451,795
Lion	29,542,747	123,723,779	105,497	2,496,708
Mad Max FURY ROAD	21,733,987	377,636,354	1,147,260	54,207,101

[22]

The destructive impact of online piracy to the industry is not restricted to the major films. From the graph below, smaller films are more affected than majors in relative terms.[23] It shows the number of in-cinema views on the horizontal axis, and on the vertical it shows the multiple of that number in illegal views.



[21] Sandy George and Screen Australia, *Performance in Australian cinemas*, <http://thescreenblog.com/screenintel/performance-in-australian-cinemas/>. This doesn't mean none of these films will – it takes many years for all auxiliary revenue sources to come in – but does highlight the likelihood that private investment alone would be perceived as too risky.

[22] Sources for this table include:

- MPDAA for Australian Box Office
- IMDb for Worldwide Box Office
- GfK Retail Tracking for DVD/Blu-ray units
- Tecxipio for illegal download stats

[23] WAVR Media analysis (MPDAA data for Box Office, Texcipio for illegal download stats).

The benefits of attracting major international productions

Many countries, including Australia, offer incentives to attract big blockbuster productions because of the impact these productions have on both short-term and long-term economic and fiscal benefits that extend beyond the production activities, including job creation, increased tourism, development of film industry infrastructure and attraction of future production activities. Some detailed examples of these benefits can be found in Appendix C.[24]

Due to the highly competitive international market in production offsets to attract major feature projects, these incentives need to be fiercely competitive. Australia's 16.5% Location Offset is no longer internationally competitive. The below table reveals how Australia's location offset stacks up against competing jurisdictions.[25]

Country/Jurisdiction	Tax Credit/Offset Rate 2006	Tax Credit/Offset Rate 2016
Australia	12.50%	16.50%
New Zealand	12.50%	20-25%
United Kingdom	16%	25%
Ireland	20%	32%
Ontario	18%	21.5% + 37% Production labour
British Columbia	18%	43.72% production labour
Quebec	20%	20%. 37% Production Labour
Georgia	9-12%	30%

It is notable that production centres around the world with stable, competitive location incentives are having record years with production volumes and sustainable employment growth.

- The UK has seen enormous success for its creative industries, with tax incentives for big international blockbusters the cornerstone of that success. The UK's Office for National Statistics singled out motion picture activities as playing a significant role in achieving UK's GDP growth[26]. The figures showed that the economic value of the UK's film, TV and Music industries has grown 72.4% since 2014, compared with just 8.5% across the European Union[27]. Employment in the creative industries was growing at more than four times the rate of the wider UK workforce[28].

[24] See page 22.
[25] Table provided by AUS Film.
[26] Larry Elliott, The Guardian, *Hammond admit's UK consumers hurt by pound's fall as GDP grows by 0.3%* (27 July 2017), <https://www.theguardian.com/business/2017/jul/26/uk-gdp-economy-grows-slowdown-manufacturing-construction-services>.
[27] Mark Sweney, The Guardian, *UK film Industry on a roll as it helps keep economy growing* (27 July 2017), <https://www.theguardian.com/film/2017/jul/26/uk-film-industry-economy-ons-movie-tv-tax-breaks-pound>.
[28] UK Department of Digital, Culture, Media & Sport, Jobs Boom for UK Creative Industries (26 July 2017), <https://www.gov.uk/government/news/jobs-boom-for-uk-creative-industries>.

Phill Clapp, chief executive of the UK Cinema Association said:

> *"The UK cinema industry is enjoying a period of exceptional success, UK audiences are responding positively not just to a diverse and high quality film slate, but also it seems to unprecedented levels of investment in all aspects of the cinema-going experience."*[29]

- Ontaria, Canada, saw its third consecutive record-breaking years in total production because of the stability and competitive Canadian and provincial incentives. The film and television production industry contributed CA$1.7 billion to the economy in 2016. It is also worth noting that growth was attributed to a combination of record-levels domestic productions as well as record-level foreign productions – each representing roughly 50%. Employment also reached a record-high of 35,500 FTE[30].

- New York, U.S.A, experienced an increase in production and jobs from 28,000 in 2011 to 35,406 in 2016, and concluded that the tax incentives offered paid for itself, with total tax collections exceeding the tax credits offered[31].

- New Mexico, U.S.A, with its 30% incentive also saw three consecutive years of record production levels, with 2016's record US$505m contribution shattering the previous year's record by $115m[32].

Over the past five years, the Australian Government has relied on discretionary top-up grants. These grants effectively increase the location offset for films to 30% for selected projects. When international studios compare production location options, having certainty with respect to tax credits is a key factor. While Australia boasts incredible local talent, the uncertainty generated by this ad-hoc policy does not serve the interests of Australia's screen industry in the long term, nor maximises the return on the Government's investment.

Some examples of films that have been attracted to Australia through top-up grants include the following:

- The Wolverine (2012)
- Pirates of the Caribbean 3 (2013)
- Thor: Ragnarok (2015)

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[29] Ibid. 28.

[30] Ontario Media Development Corporation, March 2017, <http://www.omdc.on.ca/Assets/Research/English/Ontario+Film+and+Television+Production+Levels/2017/2016+Production+Stats.pdf>.

[31] Empire State Development, *Economic Impact of the Film Industry in New York State – 2015 & 2016* (January 2017), https://esd.ny.gov/sites/default/files/news-articles/2017_CamoinAssociates_FilmTaxCreditReport.pdf, (New York's tax incentive is currently set at 30%, <http://www.o-spi.co.uk/spis-global-incentives-guide-featured-in-world-of-locations-download-here/>.)

[32] US News, *Governor: Film Industry Infuses $505m in New Mexico Economy* (August 10, 2017), <https://www.usnews.com/news/best-states/new-mexico/articles/2017-08-10/governor-film-industry-infuses-505m-in-new-mexico-economy>.

- Alien/Covenant (2015)
- Aquaman (2016)

These projects collectively delivered more than $770 million in direct foreign investment into Australia, while also generating multiplier benefits for Australia in industries such as tourism, marketing and hospitality.

Unfortunately, Australia has missed out on several projects for which it should have been the frontrunner, such as:

- The Light Between Oceans. This UK production was based on an Australian best-selling novel yet the production went to New Zealand, where the location incentive is 25%, with only one week being filmed in Australia.
- The Martian. Ausfilm supported Sir Ridley Scott to scout Australia as a location for this $100m film, yet the film was shot in Hungary, where the rebate is 30%.
- Tomb Raider. Ausfilm supported MGM to scout Australia for locations and facilities. MGM approached the Government for a top-up but were unable to secure it in time for their required production schedule. The producers instead took the project to South Africa, were a rebate of 25% is in place.

4. The current system of support for screen content involves quotas, minimum expenditure requirements, tax incentives and funding. What are the strengths and weaknesses of the current system? What reforms would you suggest?

5. What types and level of Australian Government support or regulation are appropriate for the different types of content and why?

We answer questions 4 and 5 together here. We note that there are divergent views on the role of quotas in promoting Australian content amongst the Australian Film & TV Bodies, but are all strongly aligned on the important role tax incentives play in supporting the industry. They also align most closely with the market-oriented design principle suggested by the Government. On this basis, we make the following recommendations.

Tax Incentives

> Recommendation 1.1
>
> Set budget thresholds on qualified local scripted productions, for example with an hourly production budget of $700,000 per hour or more, to be eligible to access the 40% tax incentive.

The most efficient allocation of resources is generated by market forces ensuring investment is directed to the production of content that audiences demand. Market-based investment ensures that investments with healthy returns will be available to re-invest in new content. To support market-based investments, competitive tax incentive schemes are the most appropriate ways to encourage the creation of high-cost content like feature films and premium TV dramas.

To avoid definitional issues between TV, film and streaming, we suggest setting criteria for this incentive based on the production cost per hour, and suggest this should be aligned at the level of the current 40% film production incentive.

The recommended minimum hourly production cost levels should be periodically adjusted to take into account changes in input costs.

> Recommendation 1.2
>
> Increase the Location Offset to 30% in order to be competitive with overseas incentives.

The Discussion Paper also articulates the role of the Location Offset:

> *"The Location Offset is designed to ensure Australia remains competitive in attracting shoots for large-budget film and television productions, and is aimed at providing increased opportunities for Australian casts, crew, post-production companies and other screen production service providers to participate in these productions."*

We believe the rationale for the Location Offset has not changed. Given the increased incentives offered in many other countries, it is clear that the current design falls short in being competitive internationally and has thus failed to achieve its objective to attract these productions.

We strongly urge that the Government increase the Location Offset to 30% and provide the much-needed certainty to the Australian Film and TV industry to attract foreign productions that will ultimately generate employment in the high-tech, high-value-add screen production sector in Australia. Australia will be seen as progressive and innovative toward business and 'open for business'. It will also encourage the continued development of new emerging young talent both behind and in front of the camera, and provide a continuous flow of high-calibre work to encourage those that have achieved success overseas to do more projects here in Australia. For the screen production sector to be viable, a balance between Australian and international production is needed to justify the continued investment in facilities and capabilities. This investment in talents through exposure gained from foreign productions in Australia is critical to ensure Australian films can compete with global output. Currently, Australia lags behind in foreign direct investment in production as well as production infrastructure, compared to competitive international production centres including the United Kingdom, Canada and the US, (particularly states such as Georgia, New York and Louisiana) as a direct result of the shortcomings of the current location offset.[33]

Number of Top 100 Domestic Films Produced by Location

Country/Jurisdiction	**2016**	**2015**	**2014**	**2013**
Georgia (USA)	17	13	8	9
UK	16	15	12	9
Canada	13	11	7	16
California (USA)	12	14	21	16
New York (USA)	6	7	12	4
Massachusetts (USA)	5	3	2	4
Australia	4	1	2	2

It is interesting to see how responsive film production has been to those territories that have offered strong incentives such as Georgia (30%) with output doubling in the past years making it the number one global production centre for blockbuster movies. Conversely, California's

[33] Film LA,Inc., *2016 Feature Film Study*, Page 3, Table 2 <https://www.filmla.com/wp-content/uploads/2017/05/2016_film_study_WEB.pdf>.

approach of not offering competitive incentives for films over US$100m has seen its share drop from 21% in 2014 to just 12% in 2016.[34]

The size of the potential opportunity is clearly illustrated in the outlays provided by major international content producer, 21st Century Fox (Fox), for example. In the past four years, Fox has invested US$1.65 billion dollars in international film & TV productions outside of Australia.[35] Australia would have a real opportunity to secure a substantially bigger share of that investment if it were to raise the location offset to 30%, especially given that Fox owns a world-class production facility in Australia.

> **Recommendation 1.3**
>
> The Location Offset and the PDV Offset should be decoupled so that projects can be filmed and post produced in Australia.

By specifying that a production can apply for the location offset *or* the PDV offset, but not both, Australia stands alone amongst countries actively aiming to offer incentives to attract major international production. As a result of this policy, Australia currently loses out on either the filming or post-production of filmed content to Canada, New Zealand, the UK and the US, among others.[36]

> **Recommendation 1.4**
>
> The status of streaming services under tax legislation should be clarified to make it clear that streaming services are also eligible to access the incentives.

One of the fastest growing segments of the global film and TV industry is that of streaming services such as Netflix, Stan and Amazon Prime. These companies spend billions of dollars annually on content.[37]

The graph below highlights Netflix's content obligations relative to the revenue it generates.[38] Currently, Netflix is spending significantly ahead of its revenue base to fuel growth. Apple, Facebook and Google are also gearing up to spend heavily on high-value original scripted

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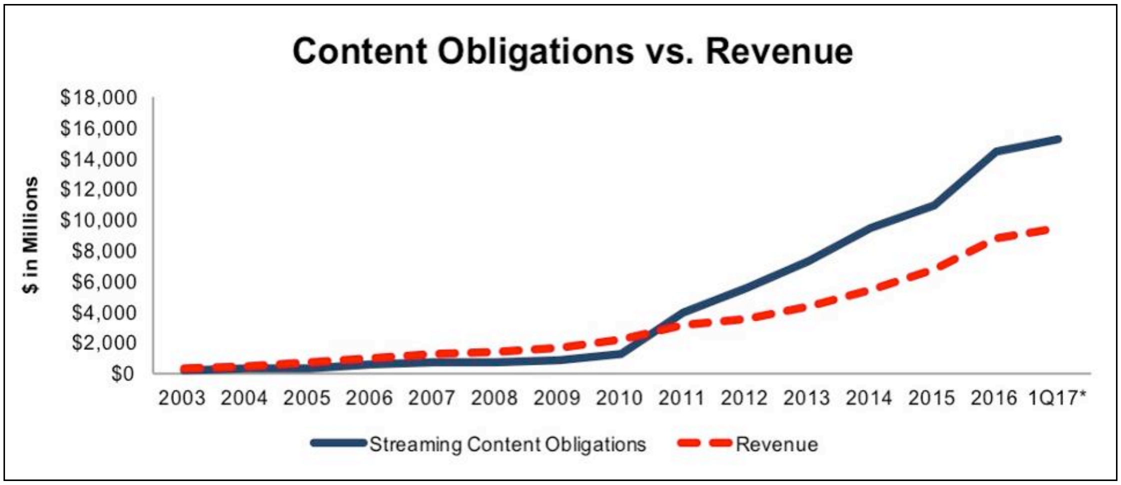
[34] Ibid 39.
[35] A full list of 21st Century Fox titles produced internationally (outside Australia) can be found in Appendix D.
[36] Emily Buder, *The Best Countries in the World to Film Your Movie, Based on Production Incentives*, No Film School, (22 August 2016), <http://nofilmschool.com/2016/07/film-production-incentives-tax-incentives-movie-rebates>.
[37] Michelle Castillo, *Netflix plans to spend $6 billion on new shows, blowing away all but one of its rivals,* CNBC, (17 October 2016), <http://www.cnbc.com/2016/10/17/netflixs-6-billion-content-budget-in-2017-makes-it-one-of-the-top-spenders.html>.
[38] David Trainer, 'Netflix's Original Content Strategy Broken Along With Rest Of Business', Forbes (online) 16 Jun 2017 <https://www.forbes.com/sites/greatspeculations/2017/06/16/netflixs-original-content-strategy-broken-along-with-rest-of-business/#3ddaee035437>.

content.[39] For the long term health of the Australian film and TV industry it is essential it can competitively bid for productions from these relatively new platforms.



An ambiguity in the tax legislation creates uncertainty as to whether these companies can qualify for the Location and PDV Offsets. Clarifying this point will encourage streaming services to film and undertake post production in Australia. Increasing the familiarity of these global players with the sophisticated Australian market and production infrastructure would encourage them to produce Australian content as well.

[39] John Koblin, 'Crowded TV Marketplace Gets Ready for Three Tech Giants' *The New York Times* (online) 20 August 2017 <https://www.nytimes.com/2017/08/20/business/media/tv-marketplace-apple-facebook-google.html?ref=todayspaper&_r=0>.

6. What factors constrain or encourage access by Australians and international audiences to Australian content? What evidence supports your answer?

Quality

This may seem self-evident, but the best strategy is to produce more high-quality content. The success of TV shows like Top of the Lake, No Activity and Rake, big TV miniseries such as Molly, Paper Giants and Howzat!, and feature films like Lion, the Dressmaker, Paper Planes and Oddball show that Australians, like people the world over, want to embrace their own stories, provided that the story telling is good, the content is appealing and of high quality.

The international success of Australian content is very often associated with the inclusion of recognisable 'brand name' talent, which make the films easier to sell. Today, however, having brand name actors alone is not enough to guarantee a film's success without good story telling and that universal appeal.

Marketing

A film does not get much time to establish itself. If a film doesn't sell tickets and popcorn, session times disappear very quickly. It is for this reason that marketing, publicity and advertising have always been crucially important to a film's success.

> Recommendation 2.1
>
> We recommend the Government offers tax incentives on eligible marketing spend for qualifying Australian feature films.

As a result of the continued fragmentation of the media landscape, achieving an effective marketing campaign has also become more expensive. Supporting marketing campaigns by giving a tax break on marketing spent is the most effective approach to encourage a bigger investment, whilst ensuring that the primary responsibility for the overall size of the marketing investment remains with the film's distributor. This should apply to marketing activity to Australian audiences, but also all B-2-B marketing activity and travel expenses aimed at selling Australian content to overseas distributors and agents.

Discoverability

In an on-demand world, being able to stand out can be a real challenge. Some voices have argued for making it mandatory for content distributors to add an 'Australian-made' section. The big question is whether that mirrors the way in which people seek out content; i.e. will they watch something because it's Australian, or because they will be entertained? Further study is required to determine if this approach is supported by the evidence.

7. What would the Government need to consider in transitioning to new policy settings?

We suggest a screen content review on a regular basis, perhaps every three years, so that policy settings can be adjusted as market dynamics evolve - as they will.

This has the added benefits that the Department can develop and retain the expertise in conducting these kinds of reviews. One can imagine that a more standardized approach is used, where several KPIs are tracked by the Department through research that supports the decision making. This would have the added benefit that these kinds of reviews can be streamlined.

The main benefit of this approach is that the need to manage transitions can be limited, given that the necessity of making drastic changes is reduced by regular reviews.

8. Is there anything else that you would like the Government to consider that has not been addressed in your responses already?

An objective assessment of the trajectory of the Australian Film and Video Production and Post Production industries shows that the digital transition has so far had a net negative effect on the sector. A paper by Dr. George Barker, based on ABS National Accounts data, demonstrates this effect.[40] From growing faster than GDP pre-2000, the Australian Film and Video Production and Post Production industries (FVPP) have experienced slower than average GDP growth over the past sixteen years. The cumulative effect is a net loss of $1.48 billion dollars since 2000 to the Australian economy in value add. In GST tax contributions alone, this amounts to a loss for Australia of $148 million. Moreover, the gap is widening. If employment had continued to grow at the same pre-2000 levels, employment in FVPP would have been a staggering 79% higher than it is presently, equating to nearly 13,000 more FTE jobs. If widespread copyright infringement cannot be significantly reduced, the reliance on Government support to the sector will increase.

[40] George Barker, *Diminished Creative Industry Growth in Australia in the Digital Age*, (10 February 2017), <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2915246>.

Conclusion

Despite the challenging commercial environment in which the Australian screen industry finds itself, it has shown a remarkable ability to deliver fantastic shows that have resonated in Australia and abroad. The Australian Film and TV Bodies are eager to see it thrive in the fast-changing environment of the 21st century. We appreciate the opportunity to contribute to this review. We are available and look forward to discussing these issues further with Government in the coming months.

Appendices

Appendix A: Full Descriptions of members of the Australian Film & TV Bodies

The Australian Film & TV Bodies are made up of the Australian Screen Association (ASA), the Australian Home Entertainment Distributors Association (AHEDA), the Motion Picture Distributors Association of Australia (MPDAA), the National Association of Cinema Operators-Australasia (NACO), the Australian Independent Distributors Association (AIDA) and the Independent Cinemas Association of Australia (ICAA). These associations represent a large cross-section of the film and television industry that contributed $5.8 billion to the Australian economy and supported an estimated 46,600 FTE workers in 2012-13.[41]

a) The ASA represents the film and television content and distribution industry in Australia. Its core mission is to advance the business and art of film making, increasing its enjoyment around the world and to support, protect and promote the safe and legal consumption of movie and TV content across all platforms. This is achieved through education, public awareness and research programs, to highlight to movie fans the importance and benefits of content protection. The ASA has operated in Australia since 2004 (and was previously known as the Australian Federation Against Copyright Theft). The ASA works on promoting and protecting the creative works of its members. Members include: Village Roadshow Limited; Motion Picture Association; Walt Disney Studios Motion Pictures Australia; Paramount Pictures Australia; Sony Pictures Releasing International Corporation; Twentieth Century Fox International; Universal International Films, Inc.; and Warner Bros. Pictures International, a division of Warner Bros. Pictures Inc.

b) AHEDA represents the $1.1 billion Australian film and TV home entertainment industry covering both packaged goods (DVD and Blu-ray Discs) and digital content. AHEDA speaks and acts on behalf of its members on issues that affect the industry as a whole such as intellectual property theft and enforcement, classification; media access, technology challenges, copyright, and media convergence. AHEDA currently has 13 members and associate members including all the major Hollywood film distribution companies through to wholly-owned Australian companies such as Roadshow Entertainment, Madman Entertainment and Defiant Entertainment. Associate Members include Foxtel and Telstra.

[41] Access Economics, *Economic Contribution of the Film and Television Industry in Australia,* Deloitte Access Economics Pty Limited, (February 2015), <http://screenassociation.com.au/wp-content/uploads/2016/01/ASA_Economic_Contribution_Report.pdf>, p iv.

c) The MPDAA is a non-profit organisation representing the interests of theatrical film distributors before Government, media, industry and other stakeholders on issues such as classification, accessible cinema and copyright. The MPDAA also collects and distributes cinema box office information including admission prices, release schedule details and classifications. The MPDAA represents Fox Film Distributors, Paramount Pictures Australia, Sony Pictures Releasing, Universal Pictures International, Walt Disney Studios Motion Pictures Australia and Warner Bros. Entertainment Australia.

d) NACO is a national organisation established to act in the interests of all cinema operators. It hosts the Australian International Movie Convention on the Gold Coast, 2017 being its 71st year. NACO members include the major cinema exhibitors Amalgamated Holdings Ltd, Hoyts Cinemas Pty Ltd, Village Roadshow Ltd, as well as the prominent independent exhibitors Palace Cinemas, Dendy Cinemas, Grand Cinemas, Ace Cinemas, Nova Cinemas, Cineplex, Wallis Cinemas and other independent cinema owners which together represent over 1400 cinema screens.

e) ICA develops, supports and represents the interests of independent cinemas and their affiliates across Australia. ICA's members range from single screens in rural areas through to metropolitan multiplex circuits and iconic art house cinemas. ICA's members are located in every state and territory in Australia, and in New Zealand representing over 159 cinema locations.

Appendix B: The value of a view across platforms

There is often a lack of transparency about the values associated with various platform businesses, especially given that contracts often contain confidentiality clauses. As such, it is best to view the below figures directionally, relative to other channels.

	Ad-SUPPORTED			SUBSCRIPTION		TRANSACTIONAL		
Channel	Face-book	You Tube	FTA	SVOD	PAY TV	TVOD	Cinema	EST
CPM consumer revenue	$2.00[a]	$7.70[a]	$30.00[a]			$5,990.00[b]	$19,000.00[b]	$19,950.00[b]
Share of Views monetised[c]	43%[d]	43%[d]	100%			100%	100%	100%
Monetised CPM[e]	$0.86	$3.27	$30.00			$5,990.00	$19,000.00	$19,950.00
Distributor Share	55%[f]	55%[f]	44%[g]			70%[f]	50%[h]	70%[f]
CPM Distributor[e]	$0.86	$3.27	$13.17			$4,193.00	$9,500.00	$13,965.00
Copyright Owner Share	100%[i]	100%[i]	100%			30%[j]	30%[j]	30%[j]
CPM copyright owner[e]	$0.47	$1.80[k]	$13.17	$25.00[l]	$50.00[j]	$1,257.90	$2,850.00	$4,189.50
RELATIVE INDEX	100	381	2,784	5,285	10,571	265,941	602,537	885,729

[a] Estimates provided by MEC.

[b] Estimates based on public sources such as iTunes or Google Play pricing or Cinema ticket from websites of major cinema chains.

[c] For any 'user-pays' model this value is by definition 100%. We have set FTA TV at 100% as well as advertising capacity usually sells at close to maximum capacity.

[d] (1) Liquidsolidus9000,'Average Percentage of Monetized Views' *Yttalk* (3 Feb 2013) < http://yttalk.com/threads/average-percentage-of-monetized-views.34684/>; (2) how2win7, 'Estimated monetized playbacks?' *Yttalk* (9 Jan 2014) <http://yttalk.com/threads/estimated-monetized-playbacks.103286/>.

[e] This is a calculated field.

[f] Ibid 10.

[g] This percentage is dictated by the share of total revenue a TV channel spends on content. We have used the content send by Australia's leading FTA channel, Seven as a guide: 562m/1279m [Media Content Cost / TV Station Income], Seven West Annual Report, 2016, http://www.sevenwestmedia.com.au/docs/default-source/annual-reports/2016-annual-report.pdf?sfvrsn=2

[h] Stephen Follows, *How is a cinema's box office income distributed?* <https://stephenfollows.com/how-a-cinemas-box-office-income-is-distributed/>.

[i] Most UUC content is uploaded directly by the user, as such there is no middleman, other than the platform itself. Hence this share is set at 100%.

[j] This is a conservative estimate, based on taking out marketing and distribution costs, and then applying a profit for the distributor. Figure in reality could be higher.

[k] The $1.80 number is further validated by a number of weblinks, where creators talk about their income from YouTube views: (1) http://www.dailytelegraph.com.au/news/nsw/aussie-vloggers-cash-in-with-successful-businesses-run-through-youtube-channels/news-story/bf91059baff4d785d40223cc1df24258; (2) https://youtu.be/iuqfQ4Quwp4; (3) http://www.wengie.com/blog-posts/how-much-money-does-youtuber-make-how/; (4) https://splinternews.com/get-rich-or-die-vlogging-the-sad-economics-of-internet-1793853578; and (5) https://www.youtube.com/watch?v=Rgd30_JiK24

[l] There is no public available data and calculating back from public sources is difficult. Based on studio licensing practices (transactional first, first pay window to usually Pat TV, second pay window to usually SVOD, then FTA TV, one can safely deduct that the relative size of revenue is correct, i.e. that Pay TV has a lower pay per view than Transactional Models, but we don't know how big the relative gap is. Same for SVOD earning more than FTA, but again it is unknown how big the relative gap is.

Appendix C: Examples of benefits from tax incentives

Examples of high-quality jobs for Australians and the economic and multiplier benefits of tax incentives include:

- ***The Great Gatsby, New South Wales:*** The filming of Baz Luhrmann's *The Great Gatsby* in 2011 in Australia is credited with injecting A$340 million into the NSW economy. According to the Australian Financial Review,[54] the film was a boon to everyone from Sydney's Fox Studios to NSW milliners and seamstresses. The NSW Government estimated the overall impact of the film, with principal photography at Fox studios, at almost three times its A$120 million budget, while providing approximately 1,000 jobs. *Gatsby* has also kept millions of dollars' worth of equipment in the country. Post-production company Spectrum Films, where the 3D extravaganza was edited, said Gatsby allowed them to upgrade and re-equip their 1400 square metre, 35-suite facility, employ more people and be globally competitive.

- ***Pirates of the Caribbean 5, Queensland:*** The fifth instalment of this franchise completed principal production in 2015, here in Australia. The film, expected to be theatrically released in 2017, was shot on location at the Village Roadshow Studios on the Gold Coast. The Australian Government approved contributing A$21.6 million to the production of the film, the sum the Federal Government had previously promised for the production of *20,000 Leagues Under the Sea*, also a Disney project (but that was ultimately shelved). According to the former Queensland premier Campbell Newman, the film is anticipated to bring in about A$87.1 million to Queensland and create over a thousand local jobs.[55]

- ***The Wolverine, New South Wales:*** The Australian Federal Government made a one-off A$12.8 million payment to attract *The Wolverine* to film in Sydney.[1] The investment package at the time effectively represented an increase of the Location Offset from 16.5% to 30%; however, the current rate is still 16.5%. The film is reported to be worth A$82.6 million in investment and created up to 2,000 jobs. According to Ausfilm, the filming of *The Wolverine* in Australia resulted in meaningful benefits for the industry and the economy, including jobs, skills and training, and investment back into the local industry. The extension of the Location Offset demonstrated substantial Government support for the Australian film industry and highlighted the importance of an increase to the Location Offset to attract and compete for large-scale international productions to shoot in Australia.[56]

- Tourism Australia developed their 'Come Walkabout' campaign in partnership with Baz Luhrmann based on the success of his film *Australia*, which was seen by more than 23 million people worldwide. The 'Come Walkabout' campaign ran in 22 major markets around the

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[54] Brooke Turner, *Gatsby's great news for film industry*, Australian Financial Review, (12 September 2011), <http://www.afr.com/lifestyle/arts-and-entertainment/film-and-tv/gatsbys-great-news-for-film-industry-20110911-i4910>.

[55] Patrick Frater, *Pirates of the Caribbean 5' to Shoot in Queensland, Australia*, Variety, (1 October 2014), <http://variety.com/2014/film/asia/pirates-of-the-caribbean-5-to-shoot-in-queensland-australia-1201318991/>.

[56] Paul Chai, *Wolverine meets Gatsby*, Variety, (6 May 2012), <http://variety.com/2012/film/news/wolverine-meets-gatsby-1118053180/>.

world and '…of the long haul travellers who have seen components of the campaign, 24 percent seriously intend coming to Australia in the next 12 months, representing a 60 percent increase in intention.[57]

The campaign was validated by extensive research around the world quantifying the nexus between what viewers see on the large and small screen and driving visitors to the location where the projects are filmed. Previous studies that have found evidence of motion picture and television-induced tourism in other global territories include:

- United States: A 1998 study measuring the impact of 12 motion pictures on visitation to specific locations found that motion pictures increased visitation by, on average, 40 to 50% for at least four years following release.
- New Zealand: In a 2003 survey of international visitors, 8.6% of respondents indicated that the Lord of the Rings Trilogy was a factor in their decision to visit New Zealand, and 89% of international visitors were aware the productions were shot in New Zealand before they arrived.
- Ireland: A 2010 survey of overseas travellers found that 20% of total respondents identified films as an information source that influenced their decision to visit Ireland.
- Scotland: A 2012 survey of UK adults found that 19% of respondents had been inspired to visit or consider visiting Scotland by a film they had watched.
- United Kingdom: A 2011 analysis estimated that approximately 12% of international visitors to the UK were motion picture and television- induced tourists.
- In Louisiana, a survey undertaken by Federated Sample and HR&A Advisors of 1,381 recent visitors to the state found 14.5% of domestic U.S. out-of-state leisure visitors to Louisiana were film induced tourists, generating $2.4 billion (US) in economic activity in the state.[58]

[57] Tourism Australia, *Annual Report 2008-2009*, (October 2009), <http://www.tourism.australia.com/documents/corporate/Annual_Report_2008_2009.pdf>.

[58] The Australian Film & TV Bodies would be pleased to provide further, comprehensive information on incentive amounts existing in these and other territories.

Appendix D: Full list of 21st Century Fox titles produced internationally between 2013 and 2017 in countries with higher incentives than Australia's 16.5%[59]

Fox feature films and production locations:

- *Die Hard 5* – Hungary. Released 2013
- *The Book Thief* – Germany. Released 2013
- *Secret Life of Walter Mitty* – Iceland. Released 2013
- *Dawn of the Planet of the Apes* – British Columbia, Canada. Released 2014
- *Night at the Museum 3* – British Columbia, Canada and the UK. Released 2014
- *Exodus* – Spain and the UK. Released 2014
- *X-Men: Days of Future Past* – Montreal, Canada. Released 2014
- *Agent 47* – Germany / Singapore / Canada. Released 2015.
- *X-Men: Apocalypse* – Montreal, Canada. Released 2016[60].
- *Deadpool* – British Columbia, Canada. Released 2016[61].
- *Spy* – Hungary. Released 2015.
- *Miss Peregrine's Home for Peculiar Children* – The UK. Released 2016.
- *War for the Planet of the Apes* – British Columbia, Canada. To be released in 2017[62].

The aggregate production spend on theses 13 Fox films was over US$1.4 billion.

Fox major television shows and production locations:

- *24 Live Another Day* – The UK. 12 episodes aired in 2014.
- *Homeland Season 4* – South Africa. 12 episodes aired in 2014.
- *Bastard Executioner* – The UK/Wales. 10 episodes for season one aired in 2015.
- *Tyrant* – Hungary. 32 episodes in 2014-2016.
- *X-Files Season 10* – British Columbia, Canada. 6 episodes commenced airing in 2016.
- *Minority Report* – British Columbia, Canada. 10 episodes that commenced airing in 2015-2016.

21st Century Fox produced 82 episodes for these six shows at an average cost of US$3 million per show, representing a total investment of almost US$250 million.

[59] The Australian Film & TV Bodies would be pleased to provide further, comprehensive information on incentive amounts existing in these and other territories.
[60] Motion Picture Association Canada, *Production of Twentieth Century Fox's X-Men: Apocalypse spent over $105 million in Québec* (May 27, 2016), <http://www.mpa-canada.org/wp-content/uploads/2016/05/X-Men-Final_EN.pdf>.
[61] Motion Picture Association Canada, *"Deadpool" boosts British Colombia's Economy* (February 12, 2016), <http://www.mpa-canada.org/wp-content/uploads/2016/02/Deadpool-Release_Final.pdf>.
[62] Cision, Twentieth Century Fox's War for the Planet of the Apes Contributed Over $81million to the BC Economy (July 14, 2017), <http://www.newswire.ca/news-releases/twentieth-century-foxs-war-for-the-planet-of-the-apes-contributed-over-81-million-to-the-bc-economy-634466483.html>.