



**FreeTV**  
Australia

# Telling Australian stories in the new media age

**Submission by Free TV Australia**

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Australian and Children's Screen Content Review: Department of Communications and the Arts, the Australian Communications and Media Authority, and Screen Australia

29 September 2017

# Contents

Executive summary	4
The role of the commercial free-to-air industry	8
A national public service	8
Delivering a cultural and economic dividend	10
The country's largest producers and commissioners	11
Provider of training and regular employment	12
Strong promoter of local content and talent	14
The new media landscape	16
Explosion of choices and competitors	16
Children move to destinations and on-demand	22
A new era for drama	29
Commercial challenges for broadcasters	31
Recommendations for change	32
1. Reset the quota settings	32
2. Adjust financial incentives and conditions	37
3. Review the role of the national broadcasters	42
4. Strengthen copyright protections	44
Appendix: Children's TV quotas	46







# Executive summary

Free TV represents Australia's commercial free-to-air television licensees. On behalf of our members, we welcome this opportunity to submit their views to the Australian and Children's Screen Content Review being conducted by the Department of Communications and the Arts, the Australian Communications and Media Authority, and Screen Australia.

The commercial free-to-air broadcasting industry is the largest producer and commissioner of Australian content. It is also deeply committed to ensuring Australian audiences continue to see Australian faces, voices and stories on their screens.

Our members invest \$1.5 billion every year in creating Australian content – representing 60% of all local spending on content. They are also the cornerstone long-term employer and training ground for the Australian screen production sector. Their strength comes from maintaining well-known and trusted brands, and reaching large audiences nationally.

As an industry, we believe local content delivers enormous cultural and social dividends by creating and reinforcing our national identity, and helping Australians understand and interpret the world around them. It also helps show and explain Australia to the world.

At the same time, the creation of Australian content delivers a large economic dividend to the community from \$3.4 billion a year in production activity. It also drives direct and indirect exports in tourism, education and other sectors by showing Australia to the world. Deloitte has estimated Australia gained \$252 million a year in direct exports of films, dramas and documentaries in 2015, and a further \$725 million from related tourism.<sup>1</sup>

The commercial free-to-air broadcasting industry plays a huge role in generating these benefits by creating and delivering content across a wide range of genres. These include news and current affairs, sport, entertainment, lifestyle, drama and children's programming.

However, our industry stands at a critical point in its history. It is no exaggeration to say that the television industry has changed more in the past decade than at any time since its creation. Consumers can now access television-style content on multiple digital devices and through a plethora of platforms and services including linear free-to-air TV, pay TV services such as Foxtel, subscription video on demand (SVOD) services including Netflix and Stan, and the vast array of everything from children's shows to the rise of YouTubers.

This explosion in competition for viewers is delivering exceptional choice for consumers, but is also very challenging for the traditional free-to-air TV sector. Audiences are fragmenting, advertising revenues are declining and consumers are quickly forming new viewing habits. For example, children now mainly watch children's TV only on-demand or on dedicated channels, and adults 'binge watch' their way through drama and documentary series from around the world.



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Australian content delivers a large economic dividend to the community from **\$3.4 billion a year** in production activity.

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<sup>1</sup> Deloitte Access Economics, 2016, "What are our stories worth? Measuring the economic and cultural value of Australia's screen sector".



# JUDAH



Our industry employs more than

**15,000**  
people

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directly and indirectly, and  
contributes a total of

**\$2.8**  
billion

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each year into the  
Australian economy

# Executive summary



As a result, there is an urgent need to reform the regulations and incentives that the government has in place to meet its stated objectives of securing quality content that promotes Australian identity and culture, securing quality Australian content for children and driving more sustainable Australian content industries.

The commercial free-to-air broadcasting industry stands willing and able to play its part in meeting these vital objectives. However, our members also need flexibility to remain relevant and competitive in the new media environment. Further, they must be able to invest where they will provide the greatest social policy and economic benefits rather than being forced to operate inefficiently.

It is also important to note that SVOD and Internet businesses have no Australian content obligations, despite their rapidly growing revenues and subscriber numbers.

With these points in mind, this submission recommends the following changes. Each of these would enable our members to better align their operations to the needs of today's audiences and provide the conditions to ensure they can remain the cornerstone of Australian content for years to come and continue to contribute to positive social policy outcomes.

## 1. Reset the quota settings

- **Remove C and P quotas:** Commercial free-to-air broadcasters deliver almost 1,200 hours of Children (C) and Pre-school (P) programming per year. But unfortunately, average audiences for these programs on commercial free-to-air platforms are now less than 8,000 children, due to the plethora of new channels and platforms that offer designated children's content in a commercial free or on-demand environment, including ABC Kids. The C and P quotas on commercial networks no longer serve their intended audience and are using resources that could be better deployed elsewhere.
- **Adjust drama sub-quota requirements:** While Australian drama remains important, production costs have significantly increased and audiences have declined. Viewing trends suggest audience preferences are shifting towards greater online, on-demand consumption for scripted content and documentaries. In this environment the drama quotas should be recalibrated to a sustainable level. This would allow broadcasters to align to audience preferences and remain competitive in the new media environment.
- **Allow flexibility in quota requirements for non-aggregated regional licence areas:** Some regional broadcasters struggle to meet their full Australian content requirements in regional and remote areas, where they cannot offer the full suite of channels provided by their affiliated metropolitan networks. There should be some flexibility for these broadcasters, particularly in meeting the requirement to deliver 1,460 hours per annum of Australian content on multi-channel services.





## 2. Adjust financial incentives and conditions

The following measures would improve the viability and functioning of the production and media sector:

- **Producer Offset:** make the Producer Offset 40% for both film and TV production, and continue to make it available after a commercial TV series reaches 65 hours
- **Post, Digital and Visual Effects (PDV) Offset:** maintain the PDV Offset, including for reality and entertainment programming.
- **Screen Australia:** allow Australian broadcasters who also produce content to access Screen Australia financial and other support on the same basis as other production groups.



## 3. Review the role of the ABC and SBS

The ABC and SBS are ideally placed to deliver content that is not financially viable for commercial broadcasters, such as children's and multicultural programming. We argue this role should be formalised and expanded. The government should also ensure the national broadcasters are not undermining the health of the sector by using public funds to compete in mainstream content areas where audiences are already well served.



## 4. Strengthen copyright protections

The government should resist measures to water down copyright protections in ways that would undermine the ability of Australia's production industry to protect and commercialise its intellectual property. It should also revisit retransmission arrangements that allow free-to-air services to be relayed on pay television platforms without requiring permission or commercial recognition.



# The role of the commercial free-to-air industry

The commercial free-to-air broadcasting industry plays a critical role in enriching the lives of Australians and ensuring that the country has the capacity to tell its own stories.

## A national public service

The commercial free-to-air broadcast sector delivers a vital national public service to Australians. Our programming is enjoyed by an average of 19.9 million people each week, who can access it across the nation and free of charge.

This programming includes national and local news and current affairs programs, which play a critical role in providing information to Australians. It also includes extensive coverage of sporting matches that our members have worked hard to ensure are not hidden behind 'pay walls' on pay TV and other platforms; entertainment and reality TV programs that give viewers a glimpse into the lives and personalities of other Australians; iconic, high-quality dramas; and much more.

In 2017, the average Australian still watches 2 hours and 39 minutes of live and playback TV each day, for free. Furthermore, 70% of Australians remain reliant on the free-to-air platform for their television services. Perhaps the best way to imagine the value of the free-to-air sector is to try to imagine Australia without it – a country where people could only get access to content if they paid for it and predominantly watched foreign, pre-recorded content.



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# 70%

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of Australians remain reliant on the free-to-air platform for their television services.



# The role of the commercial free-to-air industry

## Delivering a cultural and economic dividend

The commercial free-to-air broadcasting industry is fully committed to playing its part in fostering the strength of our screen production sector and in turn supporting the government's social policy objectives. Our members are passionate about telling Australian stories and ensuring that our industry continues to support the nation economically and culturally.

It's hard to overstate the value of maintaining and growing our ability to produce television, film and other content in Australia. Producing stories and information about Australians or in Australia delivers enormous cultural and economic dividends.

Seeing our society represented on TV and in other media informs us about who we are and creates the glue that binds us as a nation. It defines our culture and identity. It also lets us show Australia's people – and our spectacular cities and landscapes – to the world.

These stories are not told as they once were, and modern audiences are engaging with content differently. While scripted drama is an important part of Australian storytelling, as demonstrated by the long-running serials, *Home and Away* and *Neighbours*, it is not the only way to build a deep sense of identity as a nation. These objectives are now achieved through many different genres including factual and entertainment programs.



Today, Australian stories can be found in a diverse slate of programming choices. Our top-rating entertainment and reality programs are filled with stories of triumph, resilience and aspiration. Our members showcase individuals' talent through programs including *The Voice*, *My Kitchen Rules* and *MasterChef Australia*. The local production of *Little Big Shots* and *Australian Ninja Warrior* also offer powerful true stories of overcoming adversity and personal achievement, while giving Australian children new role models to admire.

Our investment in sport reflects the passion and spirit of the nation. Our dedication to breaking news and holding institutions to account through our large news and current affairs departments all provide the checks and balances that Australians demand from the media.

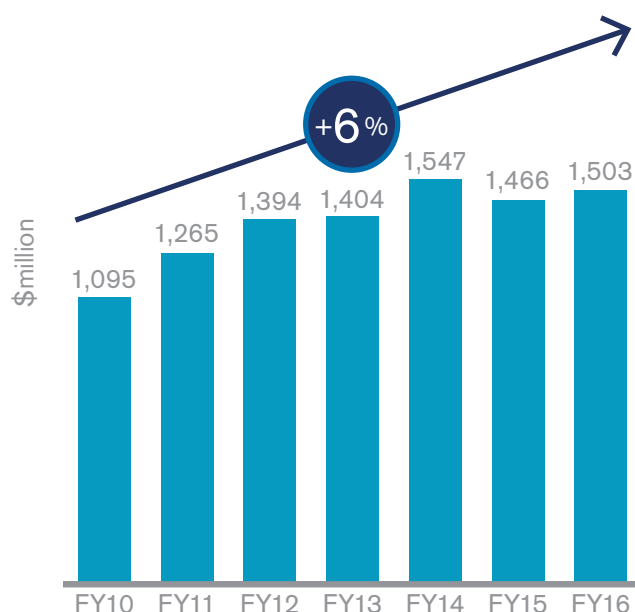
On the financial side, our screen production industry generates \$3.4 billion of direct economic activity each year.<sup>2</sup> Showing Australian content to the world also generates significant indirect exports in other sectors such as tourism and education.

## The country's largest producers and commissioners

Despite all the recent changes in the Australian media landscape, commercial free-to-air broadcasters remain the largest investors in the Australian screen production sector. This status is at risk if the industry is constrained by regulatory restrictions that mean it cannot provide the content that audiences want, in a financially sustainable manner.

Our industry employs more than 15,000 people directly and indirectly, and contributes a total of \$2.8 billion each year into the Australian economy.<sup>3</sup> Around \$1.5 billion of this investment goes directly into the production of high-quality, locally produced programs. This investment represents six of every 10 dollars invested in local production.

**Figure 1: Domestic content spend by commercial free-to-air TV**



Source: ACMA, Broadcasting Financial Reports, 2010/11 – 2015/16



# The role of the commercial free-to-air industry

**In 2016 alone, the commercial free-to-air industry broadcast more than:**

**13,784 hours** of Australian content (6am to midnight)

**428 hours** of first-release Australian drama

**430 hours** of locally produced news and current affairs programming every week.

At any point in time, commercial free-to-air broadcasters have future programs commissioned with third parties or in internal production. Ten, for example, had close to 25 programs in various stages of production at the time of writing. These include a remake of the iconic Australian story *Wake in Fright*, filmed on location in Broken Hill with a crew of about 100 people and starring David Wenham and Sean Keenan.

Similarly, Seven had more than 30 programs in various stages of production, including *My Kitchen Rules* series nine; *Home and Away* (going into its 30th year of production); *Olivia Newton John: Hopelessly Devoted to You*, starring Delta Goodrem, a new family friendly quiz show, *The Wall*, and three exciting new drama projects set to be announced shortly.

At the time of writing, the Nine Network had almost \$105 million worth of Australian programming in production. This included a range of drama and factual shows such as *Chopper*; the story of notorious underworld figure Chopper Read, starring Aaron Jeffery and Michael Caton; as well as *The Block* and *Australian Ninja Warrior*. There were more than 260 people working across these productions within Nine and at its production house partners EndemolShine, ITV Studios, Cavalier Productions, Screentime and Playmaker.

## Provider of training and regular employment

The commercial television industry is a vital training ground for screen production professionals who go on to work in TV, film, advertising and related creative areas in Australia and around the world. Many of the Australians who are succeeding in Hollywood and other markets began their careers in the free-to-air TV industry.

Free-to-air TV is also one of the few parts of the industry that offers year-round full-time employment to professionals in on- and off-screen roles. These jobs are to be found in genres such as news, sport and lifestyle programs, and especially long-running drama series such as *Home and Away* and *Neighbours*, which have been the launch pads for many successful careers both on and off screen.

According to the Australian Bureau of Statistics, as of June 2016, commercial free-to-air broadcasters employed 8,012 people, and 63.6% of them held permanent full-time jobs. A further 17,100 people were employed by other production and post-production businesses across Australia, with many of those jobs being driven by productions commissioned by the free-to-air sector.<sup>4</sup>

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<sup>4</sup> 8679.0 – Film, Television and Digital Games, Australia, 2015–16.

## Case Study: Home and Away and Neighbours

For over three decades *Home and Away* and *Neighbours* have held a unique place in Australian television history. With a loyal fan base, they have won more Logie Awards than any other program, launched the careers of some of our biggest stars, and entertained audiences in Australia and around the globe with their depiction of uniquely Australian stories and characters. They are arguably two of Australia's most successful exports, with dedicated fans around the world, and have played a key role in building Australia's desirability as a tourist destination.

The enduring popularity of both shows lies in their authentic portrayal of Australian suburban life. "It's a television show about Australians," said *Home and Away* actor Shane Withington. "You can go into any show, pub or surf club and meet the kinds of characters you see in the show. You'll see Alfs and Johns – and guys with surfboards under their arms."

When *Neighbours* opened its newly built studio sets in Melbourne in 2013, making it the largest dedicated drama set in the Southern Hemisphere, Fremantle CEO Ian Hogg said, "*Neighbours* is all about families and communities. At the centre of that is the Great Australian Dream, our homes, our backyards and our BBQs."

*Home and Away* and *Neighbours* have provided invaluable opportunities for reliable and ongoing employment for thousands of cast members, production crew and writers. These opportunities are particularly valuable to parents and others with family or financial responsibilities who wish to work in the production industry but also need the job security. Employment in drama production is often based on short-term contracts – so ongoing full-time roles are highly valuable.

These two shows have been the early training ground for some of Australia's biggest stars including Kylie Minogue, Jason Donovan, Margot Robbie, Jesse Spencer, Delta Goodrem, Isla Fischer, Julian McMahon, Simon Baker, Naomi Watts, Guy Pearce, Dannii Minogue, Chris Hemsworth, Heath Ledger, Isabel Lucas,



Ryan Kwanten and Melissa George. They continue to produce and foster talented Australian actors, writers, directors, production crew and set designers. *Home and Away* is also currently working with the Australian Directors Guild to foster diversity, offering young aspiring female directors the opportunity to work on the show, to improve gender representation on Australian TV.

Not only have *Home and Away* and *Neighbours* carved out a space in Australian TV to reflect Australian culture, but they have also successfully taken Australian stories beyond our borders. *Home and Away* and *Neighbours* have dedicated fan bases around the world, with both shows sold to numerous territories including the UK, New Zealand and Ireland. In 1987, 19.6 million people in the UK watched a *Neighbours* episode featuring the iconic Scott and Charlene wedding. It is still watched by millions around the world every day, including in Iceland, Norway, Belgium, Denmark and Canada.

The shows have promoted Australia as an ideal tourist destination, thanks to their depiction of Australian beaches and laid-back lifestyle. Tours of *Home and Away* and *Neighbours* locations and studios run in Sydney and Melbourne respectively, with the *Neighbours* studio complex attracting 10,000 visitors per year and Ramsay Street six to 12 visits weekly.

According to a recent Deloitte Access Economics survey, around 230,000 international tourists are estimated to visit or extend their stay in Australia annually as a result of viewing Australian film and TV content, representing approximately \$725 million in estimated tourism expenditure in Australia each year. It would be fair to surmise that *Home and Away* and *Neighbours* have both played a key role in promoting Australia overseas and strengthening Australia's image as an appealing tourist destination.

# The role of the commercial free-to-air industry

## Strong promoter of local content and talent

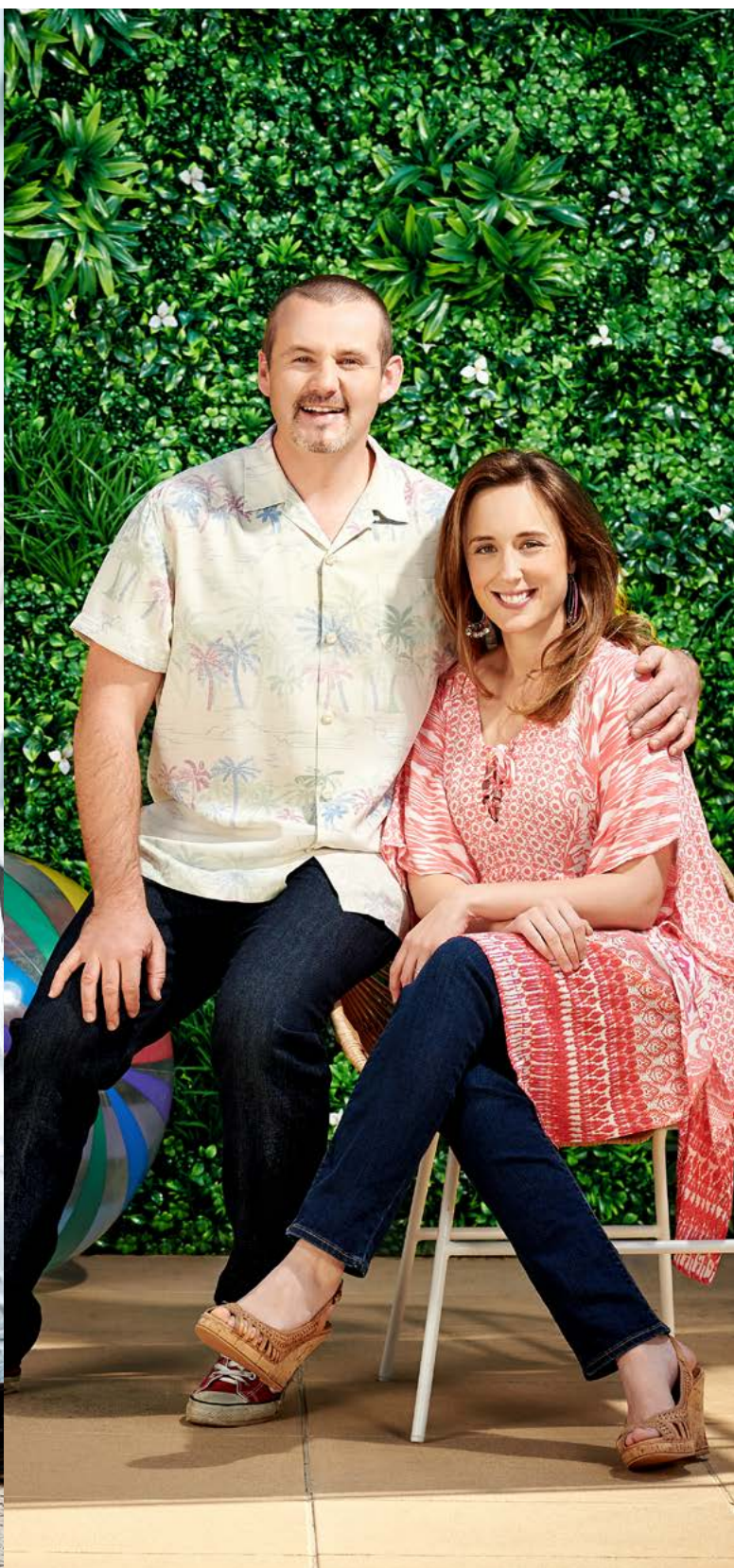
The broadcast television industry also employs many people beyond those who star in programs or are directly involved in their production. Other key areas of employment and value-add can be found in publicity, marketing, advertising sales, program distribution, intellectual property management and the operation of broadcast transmission systems.

For example, free-to-air networks employ promotional and marketing teams that are heavily focused on supporting the release of locally produced content. Maintaining these marketing and publicity capabilities also involves a large amount of related spending on offices, use of commercial air time to promote shows, and other costs.

This promotional effort is critical to the health of the local production ecosystem because it raises the profile of Australian content and the actors, presenters, sports people and other individuals who feature in it. This maximises audiences for local content, increases the likelihood of shows being recommissioned and assists with international distribution.









# The new media landscape

The commercial free-to-air industry faces major challenges from new competitors and changing viewing behaviours. These trends are directly impacting its viability and ability to remain the nation's major supporter of local content production. In a number of areas, the industry's ability to compete is also being constrained by regulatory requirements imposed by government. Many of these rules were conceived or first implemented in the 1960s and 70s when linear free-to-air television was the dominant mass-market medium in Australia.

## Explosion of choices and competitors

You don't have to spend long in a modern Australian home to realise that the way people watch television and video content has changed radically over the past decade.

### More devices

In addition to traditional televisions, we now watch 'TV' on mobile phones, PCs, computers and tablets. In the first quarter of 2017, the average home had 6.2 'screens' that could deliver TV (2.0 mobile phones, 1.8 TVs, 1.6 desktop or laptop computers and 0.8 tablets).<sup>5</sup>

### Accelerating growth in platforms and channels

In 2005, when most of the country's current media regulations were set, Australians only had two main choices of platform for live television content: free-to-air TV from commercial or public broadcasters, and pay TV services.

The Internet had arrived, but it was very early days for services such as YouTube and their vast quantities of user-generated or replayed video content. There were also early social media services, but they didn't have the capacity to carry the compelling video content they do today.

Finally, there were no catch-up TV services from the free-to-air broadcasters. The first to arrive was the popular ABC iView application, which was introduced in 2008 with the support of government funding.

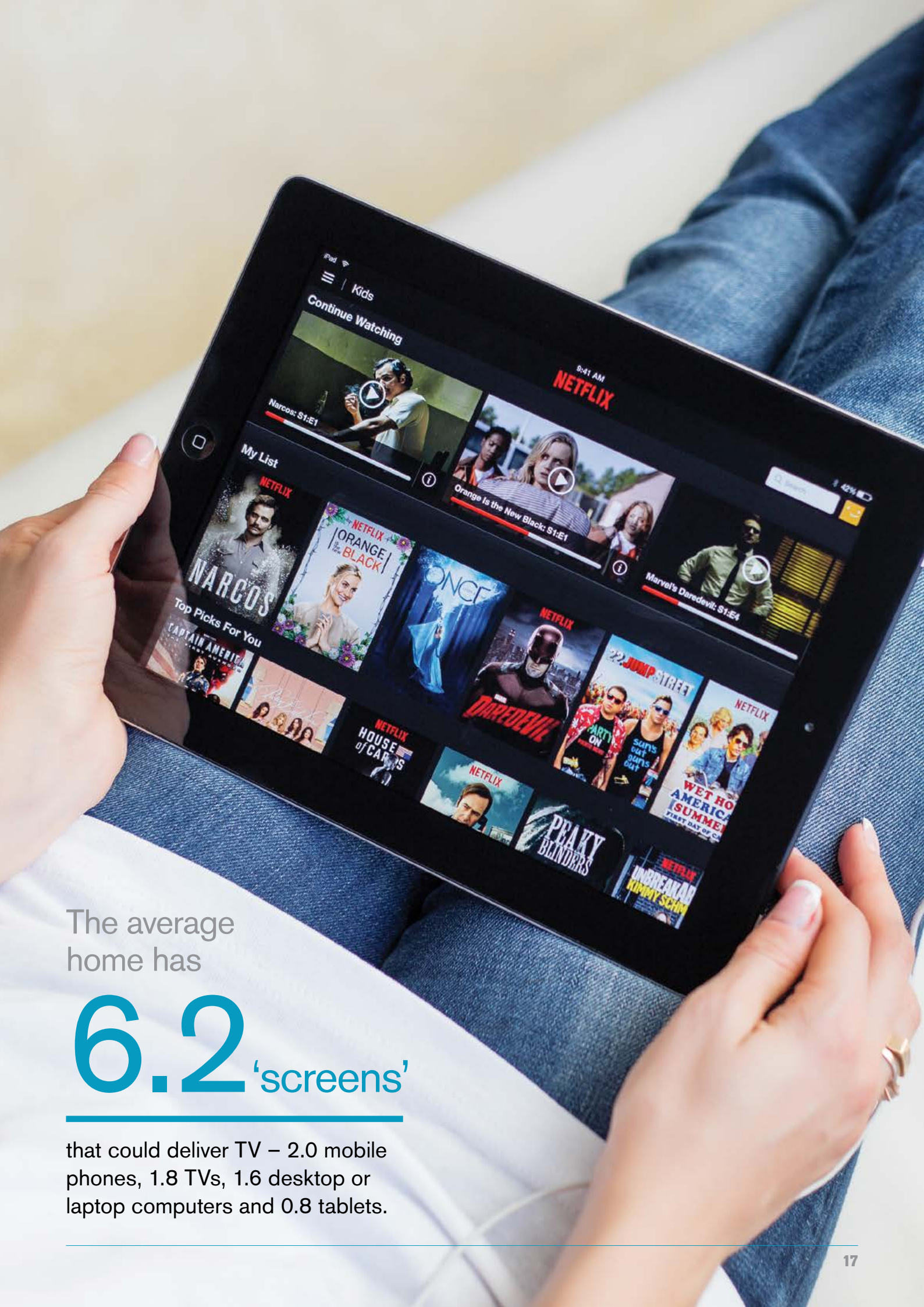


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...the way people watch television and video content has changed radically over the past decade.

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<sup>5</sup> Australian Video Viewing Report Quarter 1, 2017, Regional TAM, OzTAM and Nielsen.



The average  
home has

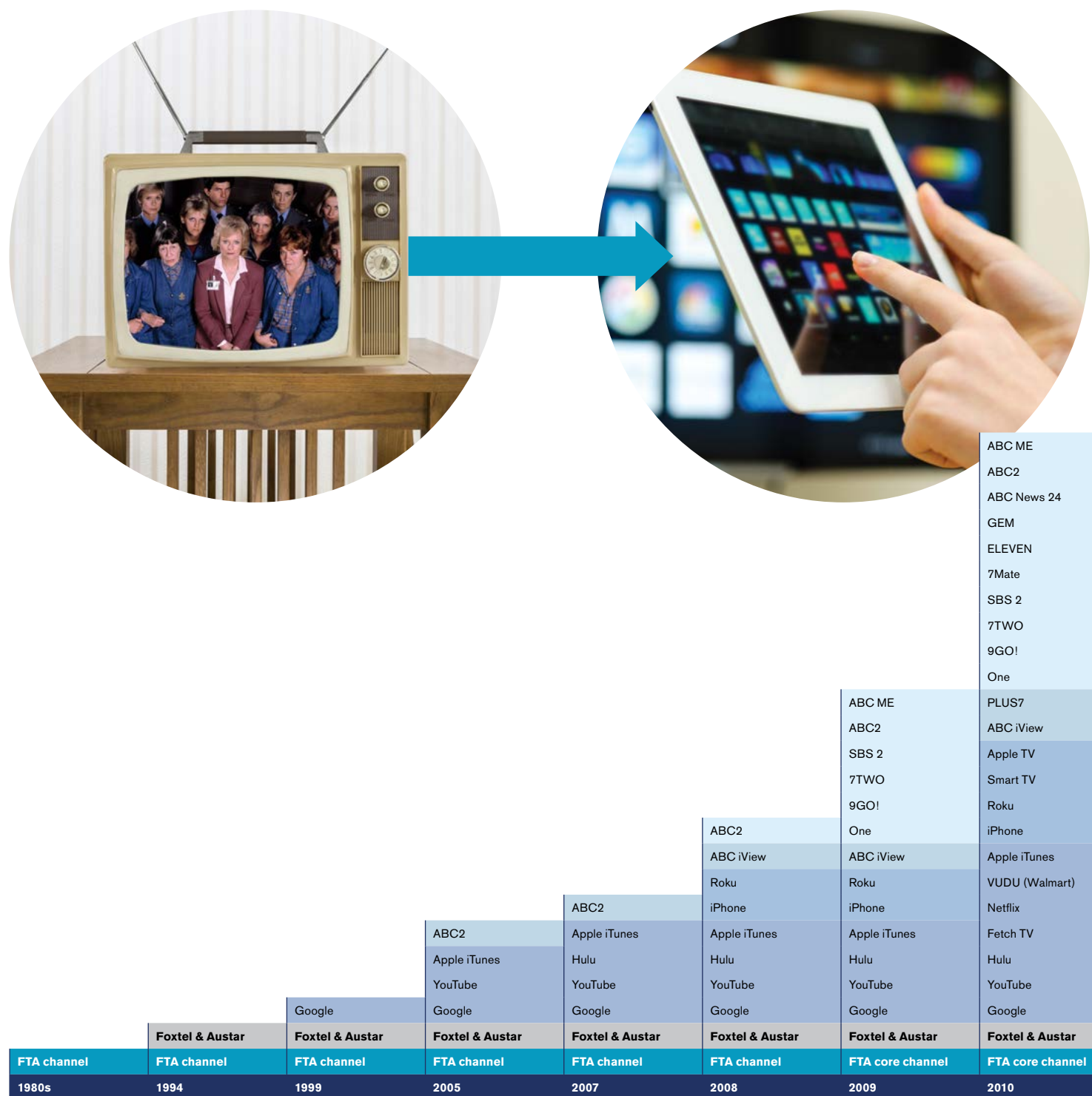
**6.2** 'screens'

that could deliver TV – 2.0 mobile  
phones, 1.8 TVs, 1.6 desktop or  
laptop computers and 0.8 tablets.



# The new media landscape

Figure 2: Evolution of Australia's content market



						7flix	AU FTA Multichannels		
						Racing.com			
						SBS Food Network			
						ABC ME			
						ABC2			
						ABC News 24			
						9Life			
						GEM			
						ELEVEN			
						7Mate			
						SBS Viceland			
						7TWO			
						9GO!			
						One			
						NITV			
						Datacast Services x 7			
						Nine StreamCo	AU FTA OTT		
						HbbTV			
						FreeviewPlus			
						Tenplay			
						9Now			
						SBS On Demand			
						PLUS7			
						ABC iView			
						Chromecast Ultra			
						Google Home			
ABC ME	SBS 2	NITV	SBS On Demand	PLUS7	ABC iView	Chromecast 2	Chromecast 2	Amazon Echo	Devices (Local and International)
ABC2	7TWO	Datacast Services x 7	PLUS7	ABC iView	Chromecast 2	Chromecast 2	Chromecast 2	Xbox One X	
ABC News 24	9GO!	Tenplay	ABC iView	Chromecast	Xbox One	Xbox One	Xbox One	Playstation 4	
GEM	One	Jump In	Chromecast	Xbox One	Playstation 4	Playstation 4	Playstation 4	Amazon Fire TV	
ELEVEN	NITV	SBS On Demand	Xbox One	Playstation 4	Amazon Fire TV	Amazon Fire TV	Amazon Fire TV	iPad	
7Mate	Datacast Services x 3	PLUS7	Playstation 4	Amazon Fire TV	iPad	iPad	iPad	Telstra T-Box	
SBS 2	SBS On Demand	ABC iView	Amazon Fire TV	iPad	Telstra T-Box	Telstra T-Box	Telstra T-Box	Apple TV	
7TWO	PLUS7	Chromecast	iPad	Telstra T-Box	Apple TV	Apple TV	Apple TV	Smart TV	
9GO!	ABC iView	iPad	Telstra T-Box	Apple TV	Smart TV	Smart TV	Smart TV	Roku	
One	iPad	Telstra T-Box	Apple TV	Smart TV	Roku	Roku	Roku	iPhone	
Datacast Services x 2	Telstra T-Box	Apple TV	Smart TV	Roku	iPhone	Stan	Stan	Stan	OTT Content & Platforms (Local & International)
SBS On Demand	Apple TV	Smart TV	Roku	iPhone	Stan	Stan	Stan	Stan	
PLUS7	Smart TV	Roku	iPhone	Stan	Stan	Stan	Stan	Stan	
ABC iView	Roku	iPhone	Google Play	Google Play	Google Play	Google Play	Google Play	Google Play	
Telstra T-Box	iPhone	Google Play	Aereo	Aereo	Aereo	Aereo	Aereo	Aereo	
Apple TV	Google Play	Aereo	NBN	NBN	NBN	NBN	NBN	NBN	
Smart TV	Aereo	NBN	Apple iTunes	Apple iTunes	Apple iTunes	Apple iTunes	Apple iTunes	Apple iTunes	
Roku	NBN	Apple iTunes	Presto	Presto	Presto	Presto	Presto	OzFlix	
iPhone	Apple iTunes	FOXTEL Play	FOXTEL Play	FOXTEL Play	FOXTEL Play	FOXTEL Play	FOXTEL Play	FOXTEL Play	
NBN	Crackle	Crackle	Crackle	Crackle	Crackle	Crackle	Crackle	Crackle	
Apple iTunes	FOXTEL Go	FOXTEL Go	FOXTEL Go	FOXTEL Go	FOXTEL Go	FOXTEL Go	FOXTEL Go	FOXTEL Now	
Quickflix	Quickflix	Quickflix	Quickflix	Quickflix	Quickflix	Quickflix	Quickflix	Quickflix	
Amazon Prime	Amazon Prime	Amazon Prime	Amazon Prime	Amazon Prime	Amazon Prime	Amazon Prime	Amazon Prime	Amazon Prime	
Blinkbox (Tesco)	Blinkbox (Tesco)	Blinkbox (Tesco)	Blinkbox (Tesco)	Blinkbox (Tesco)	Blinkbox (Tesco)	Blinkbox (Tesco)	Blinkbox (Tesco)	Blinkbox (Tesco)	
VUDU (Walmart)	VUDU (Walmart)	VUDU (Walmart)	VUDU (Walmart)	VUDU (Walmart)	VUDU (Walmart)	VUDU (Walmart)	VUDU (Walmart)	VUDU (Walmart)	
Netflix	Netflix	Netflix	Netflix	Netflix	Netflix	Netflix	Netflix	Netflix	
Fetch TV	Fetch TV	Fetch TV	Fetch TV	Fetch TV	Fetch TV	Fetch TV	Fetch TV	Fetch	
Hulu	Hulu	Hulu	Hulu	Hulu	Hulu	Hulu	Hulu	Hulu	
YouTube	YouTube	YouTube	YouTube	YouTube	YouTube	YouTube	YouTube	YouTube	
Google	Google	Google	Google	Google	Google	Google	Google	Google	
Foxtel & Austar	Foxtel	Foxtel	Foxtel	Foxtel	Foxtel	Foxtel	Foxtel		
FTA core channel	FTA core channel	FTA core channel	FTA core channel	FTA core channel	FTA core channel	FTA core channel	FTA core channel		
2011	2012	2013	2014	2015	2016	2017			

# The new media landscape

## Free-to-air viewing trends

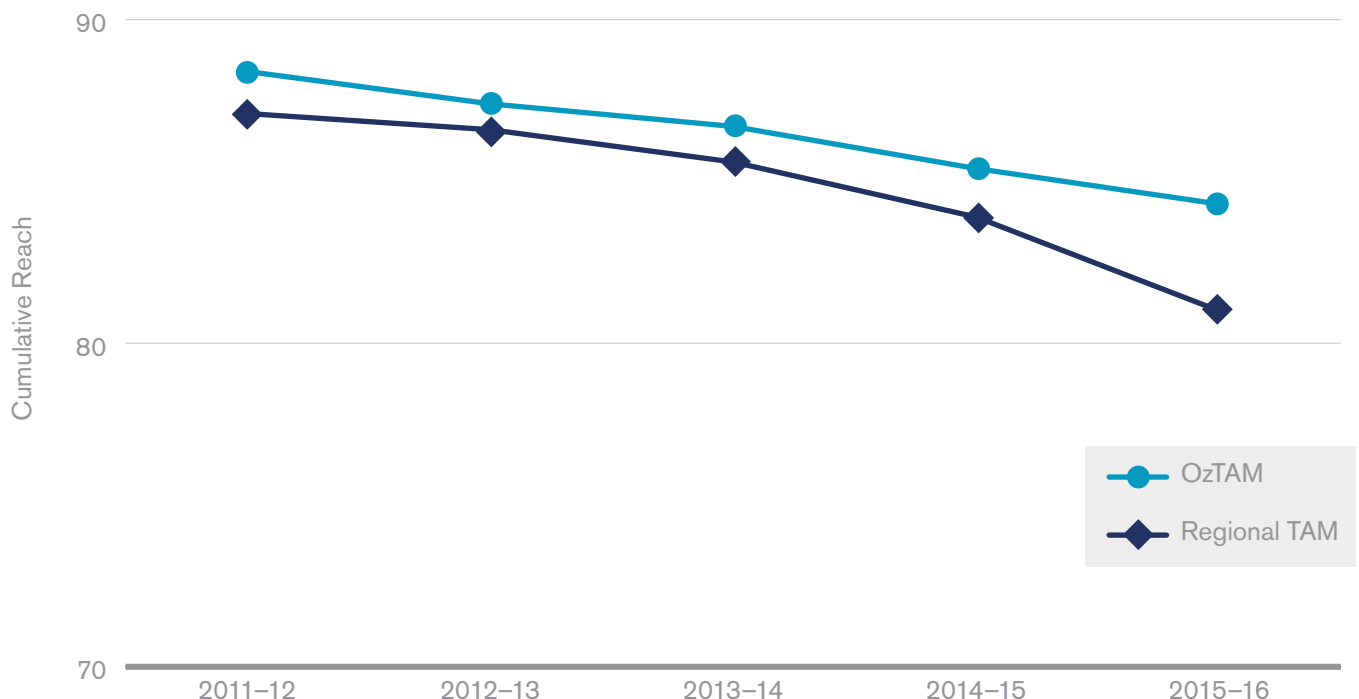
Despite the changes of the past decade, commercial free-to-air television has proven resilient and remains the most popular way for people to access content.

One of the key reasons for this is that the commercial broadcasters have very strong and highly trusted brands. The broadcasters invest heavily and innovate daily to ensure their services remain relevant to consumers, and that they continue to produce content that people want to watch.

Free-to-air TV reached a cumulative total of 19.9 million people – or 83.7% of the population – each week in early 2017. Those individuals watched 2 hours and 39 minutes of live and catch-up TV each day on average, on in-home TV sets. This was only 33 minutes less than in 2011.

While still high, there has been a gradual decline in the total time that Australians spend watching both commercial and publicly funded free-to-air TV. Figure 3 shows that around 88% of people watched free-to-air TV each week in 2011–12, compared to 84% in cities and 81% in regional areas in 2015–16.

**Figure 3: FTA television viewing – average weekly cumulative reach (five minutes consecutive), five city metro and consolidated regional markets**



Source: Communications Report 2015–16, ACMA.

Base: People aged 18 and over in the five mainland metropolitan markets (Sydney, Melbourne, Brisbane, Adelaide and Perth) for OzTAM, and for the combined regional markets (RegionalTAM).

Note: Definition of reach – the cumulative percentage or total (usually expressed in thousands) of a population that has been counted as viewers at least once during a specified interval. From 27 December 2015, figures are consolidated to 28 days.

Source: OzTAM Pty Limited and Regional TAM Pty Limited 2016. Apart from any use permitted under the Copyright Act 1968, the data may not be reproduced, published or communicated (electronically or in hard copy) without the prior written consent of OzTAM and/or RegionalTAM.



## Rapid growth of SVOD and catch-up TV services

Figure 4 shows how Australians' consumption of TV content has become fragmented across free-to-air TV, pay TV and newer services. It's important to note the data shown is from 2015–16, so it under-represents the rapid subsequent growth of new SVOD services.

For example, as of November 2016, the most popular streaming service, Netflix, was available at home to 5.78 million Australians (who accessed it via 2.22 million subscriptions). According to Roy Morgan, 35% of people with a household Netflix subscription spent three to seven hours watching the service each week, and 14% spent eight to 14 hours. One in 10 subscribers (9%) watched 15 or more hours of content per week.<sup>7</sup>

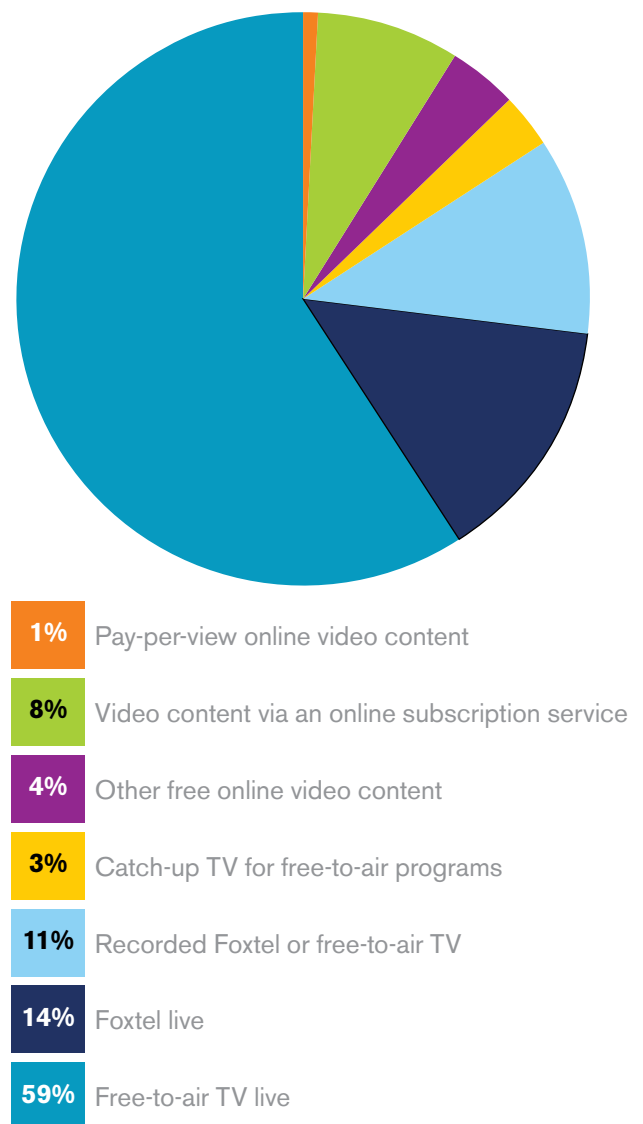
While SVOD providers do not disclose revenue figures, we estimate their collective sales were approximately \$400 million in the year to mid-2017 and are growing at 100% a year. This growth will ensure that the industry landscape is very different in five years' time.

The use of catch-up TV services from all free-to-air operators is also surging. In the 28 days to 26 September 2017 alone, Australians watched almost 301.5 million minutes of catch-up TV. This was almost 60% more than for the same time last year.<sup>8</sup>

Generation V(ideo) is watching more hours of TV-type content than before, and average viewing hours have increased, but we're watching it in very different ways.

**Deloitte** – Media Consumer Survey 2017

**Figure 4: Share of time spent watching television (live or recorded) or professional online video content, in the last seven days (percentage)**



Source: *Communications Report 2015–16*, ACMA.

Base: Australians aged 18 and over.

Note: Numbers may not add up due to rounding. 'Other free online video content' excludes user-generated content.

Source: ACMA-commissioned survey, June 2016.

<sup>7</sup> 'Second wind lifts Netflix over 5.75 million Australians – but not everyone actually watches it', Roy Morgan, 1 December 2016.

<sup>8</sup> OzTAM Video Player Measurement (VPM) Report coverage: 20/09/2017 – 26/09/2017.

# The new media landscape

## Children move to destinations and on-demand

Changes in viewing behaviour vary significantly between age groups. One clear trend is that children are watching less commercial free-to-air TV. When they do, they are now most likely to be co-viewing with other family members, watching programs such as family entertainment shows, movies and major events. These programs regularly attract hundreds of thousands of children because they engage a wide family audience through entertaining narratives and rich storytelling that is crafted to appeal to all ages.

The following information is a summary of our more detailed report, *Changing views: Australian kids and commercial television*.

On average, children under the age of 13 now watch less than 40 minutes a day of commercial TV. Only a fraction of that time is spent watching child-specific content, whether it's made in Australia or imported.<sup>9</sup> Child-specific content is classified as C (for children aged 5–13) and P (for pre-school children aged 0–4).

A recent report by the Australian Communications and Media Authority (ACMA) found that there was an almost 80% decline in the child audience for the highest-rating C and P program between 2005 and 2016 (185,000 down to 41,000).<sup>10</sup>

This is despite the fact commercial free-to-air broadcasters are creating award-winning shows for children (see box), and that the programs are all broadcast at regular times when the child audience is most likely to be available, including weekdays before and after school for C programs and mornings for P programs.



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On average, kids under 13 now watch less than 40 minutes a day of commercial TV.

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<sup>9</sup> OzTAM, analysis for Free TV, August 2017.

<sup>10</sup> *Children's television viewing and multi-screen behaviour*, ACMA, August 2017, p15.



## Award-winning programs

TV shows made in Australia for children by commercial free-to-air broadcasters consistently win industry awards.



**Beat Bugs** (Seven) won best children's television series at the 2016 AACTA awards and has been nominated for a Logie award and a number of daytime Emmy Awards in the US.



**Dogstar: Christmas in Space** (Nine) won the award for best 2D animation at the prestigious 2017 Asia Pacific Apollo Awards. The show was the sequel to the first two successful Dogstar series, comprising 52 half-hour children's animations.



**Mako: Islands of Secrets** (Ten) won Best Children's Television Program at the 2015 Australian Teachers of Media (ATOM) awards, and was a finalist in the 2016 ATOM awards and 2016 Screen Producers Australia Awards.



**Get Ace** (Ten) won first prize for best animation at the 2014 Australian Writers Guild Awards, has been sold internationally and also won awards for its musical content.

# The new media landscape

## Very low audiences for C and P programming on commercial TV

Free TV asked the research group OzTAM to analyse audiences for programs classified as C and P broadcast on any commercial free-to-air TV channel in the calendar years of 2010, 2013 and 2016.

The analysis reveals that on average very few children are watching programming classified as C and P released on commercial free-to-air TV.

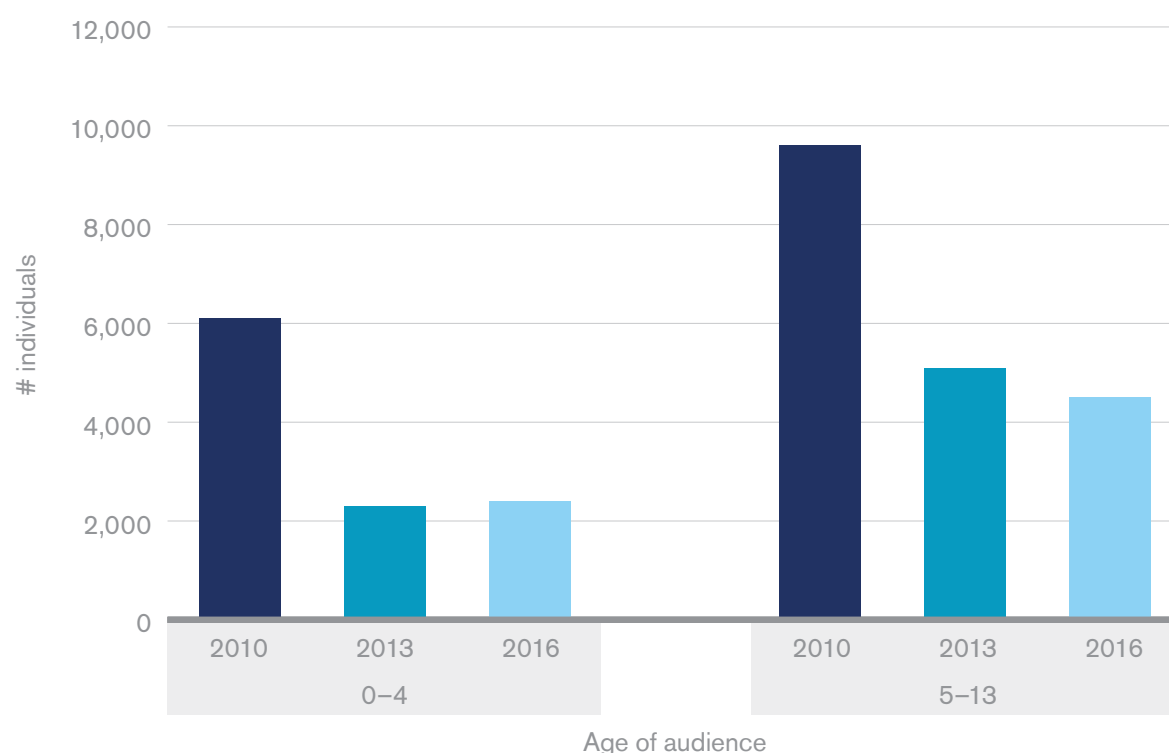
- In 2010, 14% of C and P programs attracted an average of more than 25,000 children aged 0–13 years.
- By 2016, only 7% of C and P programs had an average audience of 0–13 year olds that was higher than 25,000 and 79% of programs had an audience of below 10,000.
- Further, in 2016, all pre-school programs had an average audience in the 0–13 year old bracket of less than 10,000.

Numerous C and P shows screen to fewer than 1,000 children on commercial free-to-air television.

On average, C and P programming is reaching 0.2% of the potential target audience of all Australian children with access to the services.

The numbers of children watching C and P shows on free-to-air broadcasters' catch-up services also appears to be very low. For instance, records from Seven and Nine indicate that during the first nine months of 2017, fewer than 100 people had streamed its programs *Toybox*, *Blinky Bill*, *Imagination Train*, *Magical Tales*, *Hiccup & Sneeze* and *Teddies*.

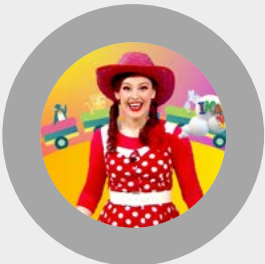


Figure 5: C and P audiences numbers are low and declining



Source: OzTAM analysis for Free TV, completed August 2017.



**Figure 6: Audiences for selected C and P programs**

Show	Average audience	Channel
 <p><b>Imagination Train</b></p>	7,000	9GO!
 <p><b>Scope</b></p>	4,000	ELEVEN
 <p><b>Beat Bugs</b></p>	1,000	7two

## What children are watching on commercial TV

The following table shows that children are still watching free-to-air television, but their preferences have changed. While there are often fewer than 5,000 children watching C and P Australian-made programs on commercial TV, there are hundreds of thousands watching family entertainment programs such as *MasterChef Australia*, *Australian Ninja Warrior* and *My Kitchen Rules*.

These entertainment shows do not count towards the C and P program quotas imposed on free-to-air broadcasters, despite playing a powerful role in presenting Australian stories and proving very popular – especially with younger Australians.

This entertainment programming also plays an important role in bringing families together. This is a key social outcome in an era when it's less common for families to spend time together.

We would highlight that recently the second most popular show for children aged up to 15 on any channel is *Little Big Shots*, on Seven. This program is not classified C or P and therefore does not count towards quota requirements, but as a talent show featuring children it draws a large youth audience.

When it comes to content specifically made for children (as opposed to content with broad family appeal), ABC Kids (ABC2) dominates, with all the high-rating children's shows appearing on that destination service rather than commercial free-to-air television.

In fact, ACMA research has confirmed that all the programs in the Top 30 watched by children age 0–14 on FTA TV in 2016 were on ABC2.<sup>12</sup>

<sup>12</sup> *Children's television viewing and multi-screen behaviour*, ACMA, August 2017. Unlike the Children's Television Standard, the ACMA used the 0–14 demographic in its recent study into children's viewing. This causes some variation in the data quoted.

# The new media landscape

**Figure 7: Top 50 programs watched by children aged up to 15 years on all free-to-air channels in 2017 (1/1/2017 to 20/9/2107)**

#	Description	Channel	Average audience P0-15
1	AUSTRALIAN NINJA WARRIOR	Channel 9	313,000
2	LITTLE BIG SHOTS	Channel 7	212,000
3	PLAY SCHOOL'S STORY TIME-PM	ABC2	160,000
4	WE'RE GOING ON A BEAR HUNT	ABC2	147,000
5	I'M A CELEBRITY...GET ME OUT OF HERE	Channel 10	142,000
6	THE BLOCK	Channel 9	140,000
7	PJ MASKS-AM	ABC2	135,000
8	THE VOICE	Channel 9	134,000
9	PLAY SCHOOL STORY TIME-PM	ABC2	133,000
10	OLOBOB TOP-AM	ABC2	128,000
11	MY KITCHEN RULES	Channel 7	125,000
12	OCTONAUTS AND OPERATION DEEP FREEZE-PM	ABC2	124,000
13	PEPPA PIG	ABC2	123,000
14	PETER RABBIT	ABC2	123,000
15	BEN AND HOLLY'S LITTLE KINGDOM	ABC2	123,000
16	SHAUN THE SHEEP	ABC2	122,000
17	DOT-PM	ABC2	120,000
18	FIREMAN SAM SPECIAL: HEROES OF THE STORM-PM	ABC2	120,000
19	TRUE STORY WITH HAMISH & ANDY	Channel 9	118,000
20	OCTONAUTS	ABC2	117,000
21	GO JETTERS	ABC2	113,000
22	FLOOGALS	ABC2	111,000
23	HEY DUGGEE	ABC2	110,000
24	GET GRUBBY TV	ABC2	108,000
25	HOUSE RULES	Channel 7	107,000
26	KAZOOPS!	ABC2	106,000
27	OCTONAUTS AND THE GREAT ARCTIC ADVENTURE-PM	ABC2	105,000



#	Description	Channel	Average audience P0-15
28	OCTONAUTS AND THE MARIANA TRENCH ADVENTURE	ABC2	105,000
29	MAURICE'S BIG ADVENTURE-AM	ABC2	105,000
30	ANDY'S PREHISTORIC ADVENTURES-PM	ABC2	103,000
31	LITTLE ROY	ABC2	102,000
32	HERE COME THE HABIBS!	Channel 9	101,000
33	OCTONAUTS AND THE GREAT SWAMP SEARCH	ABC2	100,000
34	MASTERCHEF AUSTRALIA	Channel 10	98,000
35	JEMIMA'S BIG ADVENTURE-AM	ABC2	97,000
36	FIREMAN SAM	ABC2	97,000
37	CHARLIE AND LOLA	ABC2	96,000
38	THE HIVE	ABC2	96,000
39	MARRIED AT FIRST SIGHT	Channel 9	96,000
40	THE GRUFFALO-PM	ABC2	94,000
41	OCTONAUTS AND THE AMAZON ADVENTURE	ABC2	93,000
42	ROOM ON THE BROOM	ABC2	93,000
43	THE GRUFFALO'S CHILD-PM	ABC2	93,000
44	SARAH & DUCK	ABC2	91,000
45	LOST AND FOUND	ABC2	90,000
46	PEG + CAT	ABC2	89,000
47	HOME AND AWAY	Channel 7	89,000
48	HUMPTY'S BIG ADVENTURE-AM	ABC2	88,000
49	OCTONAUTS SPECIAL	ABC2	88,000
50	THE BACHELOR AUSTRALIA	Channel 10	87,000

Source: OzTAM.

Notes:

- 5 City Metro
- P0-15 Average Audience
- FTA Networks (including ABC/SBS)
- Regular programs aired at least 3 times - minimum of 5 minutes viewing
- Multiple programs combined to average one figure (e.g. My Kitchen Rules Mon, Tue, Wed & Thu merged to one program/audience).
- Data: Consolidated (Live + As Live + TSV7), Last 7 days Overnight (Live + As Live)

# The new media landscape

## Case Study: Australian Ninja Warrior

Launched in July 2017, *Australian Ninja Warrior* has become the highest rating non-sports program in Australia with more than 2.5 million viewers watching on free-to-air TV.

The show depicts hundreds of ordinary Australians competing to conquer the world's toughest and most spectacular obstacle course. Building the obstacle course on 'Ninja Island' required a core crew of 40 people working over ten 12-hour days. Now, the show employs more than 280 production crew members on any given filming night.

*Australian Ninja Warrior* is a powerful insight into what Australians love to watch today. The show brings to life the unique Australian spirit of "get up and go" through the telling of real and unscripted stories. Contestants share what inspired them to take on the challenge, whether it's pure athleticism, supreme courage, or a desire to triumph over adversity.

These stories gripped the nation, with free-to-air ratings proving that families were viewing the show in record numbers. The show also regularly trended on digital and social channels. The grand finale attracted more than 3.4 million viewers, with young children aged 0–14 accounting for more than 287,000 of the total audience.

With its combination of adrenaline-charged action and inspiring backstories packaged as a family-friendly and fun experience, *Australian Ninja Warrior* brought Australians together, connected families and showed that any Australian could be catapulted to superhero status.





## A new era for drama

The genre of programming that has felt the full disruptive force of new media first is drama. Delivering drama series on-demand has been the driving force behind the growth of subscription video services such as Amazon Prime, Netflix and Stan – here and overseas.

### Drama consumption is shifting from linear to on-demand services

This impact – possibly combined with changing audience tastes – can be seen clearly in falling audiences for traditional scripted drama programs on television.

According to analysis by Screen Australia, in 2008, 18% of the top 50 programs on Australian TV were dramas. By 2015, none of the programs in the top 50 rating programs was a program that would be defined as a traditional drama.<sup>13</sup> In 2008, *Packed to the Rafters* was the highest rating Australian drama series, with an average five city metro audience of close to 2 million viewers. However, by 2017, no drama series has an average five city metro audience in excess of 1 million for its free-to-air broadcast.

We note that the entertainment programs *MasterChef Australia*, *My Kitchen Rules*, *The Block* and *The Voice* all made the top-50 list alongside news and sport programming. These entertainment programs feature a large amount of dramatic content and follow compelling narratives. In turn, these new and very popular formats challenge the concept of what constitutes 'drama' and 'storytelling' in the modern era. The changing definition of drama is an area the Government might consider as it continues its review.



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...no drama series has an average metro audience in excess of 1 million for its free-to-air broadcast.

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### The rise of bingeing

The migration of viewers to subscription on-demand services, as well as free-to-air broadcasters' catch-up TV services, has been accompanied by a radical change in the way that individuals consume drama programming. This is the rise of 'binge' watching.

A March 2017 survey of more than 2,000 Australian consumers by Deloitte found that 59% were bingeing – defined as watching three or more consecutive TV episodes in a single sitting. Nearly a third of those 'bingers' (29%) did so at least weekly and the average length of a binge session had increased to six episodes from five a year earlier. That equated to 4.5 hours of TV watching in a single sitting.<sup>14</sup>

<sup>13</sup> <https://www.screenaustralia.gov.au/fact-finders/television/industry-trends/top-programs>

<sup>14</sup> *Media Consumer Survey 2017: Australian media and digital preferences – 6th edition*, Deloitte Australia.

# The new media landscape

## MasterChef Australia

Hi. My name is Rick Maier.

I am the Network EP for *MasterChef Australia*, but I am also the Network's Head of Drama.

Most people find this an odd combination, but in truth the skill set that is required is identical. Why? Because reality TV is all about story-telling. We communicate aspiration and teamwork and our "characters" (in this case real people) need to overcome real hurdles and self-doubt. That's external and internal conflict.

We also happen to enjoy – purely because of our focus on food – the greatest cast diversity of all commercial FTA programs. Whilst drama folks can often regard reality as a poor cousin, the production truth is vastly different.

These shows are expensive to make. *MasterChef Australia*, for example, has a crew of 110, and a post-production crew of 150. That's a lot of jobs and a lot of skills training that is essential to the lifeblood of our business.

It is also a major success story with regard to International Sales (*MasterChef Australia* is broadcast in over 100 territories worldwide). That's a lot of inbound revenue for the production company to potentially generate more content and defray costs. That also means jobs.

Perhaps just as importantly, these kinds of shows resonate with audiences at a time when we have never ever had so much competition for eyeballs. With the fragmentation of audience, time-shifting and a shortening attention-span – is it such a bad thing to broadcast programs that can be enjoyed by the whole family at the same time in the same space?

Reality TV provides a voice and a small window perhaps into a broader community. These are still Australian voices, and they still represent us. As much as networks may claim to blaze a trail, in truth we actually only ever respond to audience taste. When the audience fatigues of an idea or a genre – it quickly ends. The audience tells us.

*MasterChef Australia* anecdotally brings joy and satisfaction to many people. It undoubtedly has had a positive economic impact on inbound tourism and the food industry. You may even argue it has fundamentally changed the way we relate to food.

This is my sixth season of the little cooking show. It is a massive beast and more than a full-time commitment – but I still consider it a privilege to be involved.

**As Network Ten's Head Of Drama, Rick Maier is responsible for *Wake In Fright*, *Offspring*, *The Wrong Girl*, *Neighbours* and many other drama programs.**

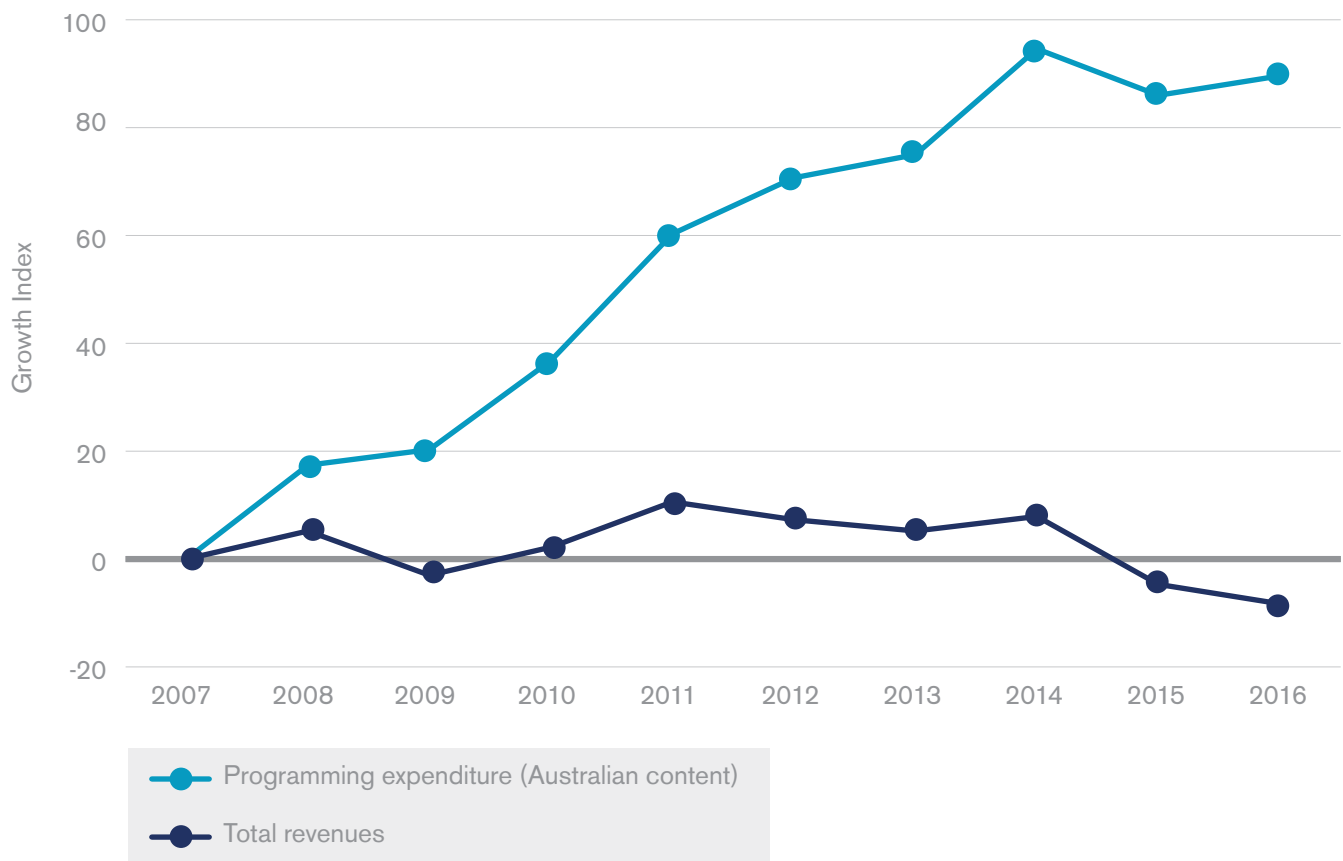


## Commercial challenges for broadcasters

The rapid growth in competitors and dramatic shifts in viewing behaviours have had a major impact on commercial free-to-air broadcasters. This is coming from the double-whammy of lower advertising revenues combined with rising production costs. Television advertising revenue has been declining by around 4% a year in recent years, while production costs have been rising by 6% year on year (see Figure 8).

It is also being exacerbated by the country's outdated and inflexible regulatory environment, which requires commercial broadcasters to create certain content even if there is not a viable audience for that material on their channels. Together, these factors means there is an urgent need to make regulatory changes to ensure the industry remains sustainable and can continue to play its critical role in supporting and delivering local content.

**Figure 8: Commercial free-to-air revenues and spending on Australian content**



Source: Analysis prepared for Free TV Australia by Venture Consulting, April 2017.



# Recommendations for change

As major industry players that are passionate about producing Australian content and seeing it succeed locally and globally, we would urge the government to move towards new settings that give the industry the right flexibility and incentives to innovate and respond to our audiences.

The following changes would help ensure the Australian public continues to enjoy watching a large quantity of high-quality local content free via our broadcast networks. They will also ensure our members can continue to act as the cornerstone for the local production sector – in way that is relevant and sustainable.

## 1. Reset the quota settings

The current quota system, which sets mandatory requirements for commercial free-to-air broadcasters, dates back to the 1960s and was last substantially updated in 2005. As the government acknowledges in launching the current review, this system has become outdated, and in many cases is failing to achieve its public policy objectives, due to the radical changes in technology and audience behaviours seen in recent years.

One of the most important changes the government can make is to adjust this system to give commercial free-to-air broadcasters the flexibility they need to remain competitive in the evolving media environment. This means being able to ‘follow the audience’ in terms of the content they want to watch and the new platforms they want to watch it on, and setting quotas at a level that is sustainable and financially viable.

We emphasise that the commercial free-to-air sector is highly committed to producing Australian content and to ensuring that Australians receive high-quality content that delivers social and cultural dividends, as well as economic ones.



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...the commercial free-to-air sector is highly committed to producing Australian content and to ensuring that Australians receive high-quality content...

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# Recommendations for change

## 1.1 Remove C and P quotas

Despite producing award-winning local programs and screening them at suitable times on readily accessible channels, very small numbers of children (often less than 10,000) now watch C- and P-classified programs on commercial free-to-air TV.

With children's programming costing hundreds of thousands of dollars per hour to produce, this represents a massive commitment of resources that could be deployed creating content that audiences do want to access via the linear, time-sensitive platform of commercial free-to-air television. Further, the current C and P classification and monitoring process is complex and onerous for commercial broadcasters to manage.

As outlined earlier in this paper, children prefer to watch children's programs on dedicated 'destination' broadcast services such as ABC Kids and Nickelodeon, that screen only children's programming. Children now also prefer to access shows on demand from services such as ABC iView and subscription or free video services including Netflix and YouTube.

For these reasons, we believe C and P quotas (see the appendix for detail) should be abolished for commercial free-to-air broadcasters. This will enable our members to redirect the money they are spending producing expensive children's content that is not reaching its intended audience and therefore failing to meet the government's policy objectives.

Commercial broadcasters could instead invest in local content that is popular with a broad family audience. Removing such waste would also enable our members to improve their financial viability and ensure they can continue to deliver compelling free television services and underpin Australia's screen production capacity.

We also note children's quotas on commercial TV broadcasters have largely disappeared in other comparable nations. The United Kingdom abolished children's quotas in 2003 and New Zealand removed them in 2011. Canada also removed children's content quotas in 2011, but requires the nation's public broadcaster (CBC) to broadcast 15 hours of material for children under 12 per week.

The UK abolished  
children's quotas in

# 2003

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New Zealand abolished  
children's quotas in

# 2011

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## 1.2 Adjust drama sub-quota requirements

### Current model

The drama quota system centres on a system of points, which are awarded according to the format and duration (in commercial hours on a pro rata basis) of drama programming. This model requires the production of a large amount of Australian drama content for free-to-air TV but unfortunately, as outlined above, this material is expensive to produce and is attracting shrinking audiences. For these reasons the volume of content required to meet the existing requirements is not sustainable into the future and the current model does not offer the flexibility and incentives to support innovation in a converged media environment.

Under the existing model, broadcasters must attain 860 points each three years, with differing points per hour based solely on the format of the program.



Furthermore, the cost of production is not considered, there is no distinction between original commissioned programs and acquired programs, and the cultural, training and employment benefits of long-running serials are significantly undervalued.

Type of program	Format factor per hour
Serial or series produced at a rate of more than 1 hour per week	1
Serial or series produced at a rate of one hour or less per week:	
• acquired from an independent producer for prescribed licence fee (currently \$421,000 per hour for 2016);	3
• in any other case	2.5
Mini-series	4
TV movies	4
Feature film – licence fee is < \$211,000 (for 2016)	2.5
Feature film – licence fee is > \$211,000 per hour (for 2016)	4

## Delivering drama content that Australians value

The commercial broadcasting industry is strongly committed to Australian content, including producing or commissioning drama content. We believe that drama programming is important to the branding and identity of our networks, and that they add texture and depth to our schedules.

However, to continue being able to invest in quality local dramas in the multi-platform, on-demand TV era, we need to move towards a new model that gives broadcasters greater flexibility in how they meet their requirements, and allows them to better align their production spending to current and future audience numbers.

We propose a new model for calculating drama scores that better reflects the needs and preferences of our current audience. This proposed model is platform-agnostic and:

- gives commercial broadcasters the necessary flexibility to respond to rapidly changing audience viewing behaviour
- recognises escalating production costs, in particular with returning series
- incentivises original commission by drawing a distinction from acquisitions, while still recognising the importance of acquisitions
- incentivises the original commissioning of content with higher production values, due to the scaled total production budget model
- recognises the importance of high-volume serials.

We believe that the proposed approach will provide the flexibility that will be critical for the sustainability of the drama production sector in Australia.

In particular, the new points system is designed to enable broadcasters to follow a range of different business models for drama, including large-scale television events, high-volume serials, and more targeted niche and short-form content that may resonate with audiences across new platforms. Specifically, this proposed approach will support:

- a wider variety of production budgets that respond to audience appetites and genre requirements
- a greater diversity of Australian stories in terms of scale, subject matter, platform and audience appeal
- a wider skill base within the production sector by fostering a diversity of production output.

# Recommendations for change

## Proposed model

Our proposal model retains the need to reach 860 points each three years and is still based on the use of format factors and the duration of programs. However, it recognises the difference between original commissioned programs and acquired programs. It also acknowledges that local production costs have risen in recent years, and that many popular dramas on on-demand platforms from overseas now have very large production budgets.

This approach also ascribes a slightly higher value to long-running series, which as we argue earlier, serve audiences and also play a key role in providing employment and training that benefits the entire Australian content production sector.

Originally commissioned programs	
Type of program	Format factor per hour
Serial or series produced at a rate of over 52 hours per annum	1.5
Series/Mini-series/TV movies based on following levels	
• Less than \$750,000*	Acquisition rates
• Between \$750,001 and \$1,000,000	5
• Between \$1,000,001 and \$1,250,000	6
• Between \$1,250,001 and \$1,500,000	7
• Between \$1,500,001 and \$1,750,000	8
• Between \$1,750,001 and \$2,000,000	9
• Above \$2,000,001	10

\* All production values relate to total production budget per hour, not only a broadcaster's contribution.

Acquired Programs	
Type of program	Format factor per hour
Serial or series produced at a rate of over 52 hours per annum	1
Serial or series produced at a rate of less than 52 hours per annum:	3
• Mini-series	4
• TV movies	4
• Feature film – licence fee is < \$211,000	2.5
• Feature film – licence fee is > \$211,000 per hour	4

## Flexibility to meet sub-quota obligations via other platforms

In addition to recalibrating the drama points, commercial TV broadcasters are also seeking flexibility to acquit their sub-quota obligations by releasing content to platforms other than free-to-air broadcast.

As noted previously in this submission, viewers are increasingly looking to access scripted drama and documentaries online, on an on-demand basis, and are binge watching an entire series over a short period rather than the traditional broadcast model of watching one episode per week. The sub-quota obligations should be amended to provide broadcasters with the flexibility to release drama and documentary content via whichever medium audiences want to consume it – whether this is a catch-up service, an alternative online platform or a social media channel.

The online environment provides great opportunities for new forms of Australian content to thrive, including content targeted at niche audiences, short-form scripted content, and novel forms of storytelling that are directly engaging with audiences. However, if broadcasters are only able to meet their drama quotas by broadcasting content on their free-to-air platforms, they are less likely to experiment with highly innovative drama projects.

## Redefine 'first release'

As a complementary measure to the new points model proposed above, we recommend that the government adjusts the definition of 'first release' contained within the Australian Content Standard, so that any program can count towards a sub-quota if it is the first time it has been broadcast on free-to-air television.

At present, there are anomalies in the treatment of programs that screen first on an SVOD service such as Netflix or Stan compared to those that might appear on a pay TV service such as Foxtel. For example, a commercial free-to-air broadcaster can screen an Australian drama or mini-series that has already appeared on an SVOD or AVOD service and still have it count towards its drama sub-quota. It can also do this for an Australian feature film or telemovie that has been broadcast on pay TV. Yet it cannot count an Australian drama series or mini-series that has been broadcast on pay TV.

This is a regulatory disparity and an outdated condition that goes against the notion of making regulation platform-agnostic. Removing this anomaly would enable co-productions with subscription broadcasters and could allow greater resources to be committed to a broader range of drama content. In turn, this could provide Australians greater access to content previously only available to pay TV subscribers.

### 1.3 Make some Australian content requirements flexible in regional and remote areas

Commercial broadcasters routinely exceed their requirement to broadcast an annual minimum of 55% Australian programming between 6am and midnight on their primary channels, and we are not proposing any reduction to this requirement. Our members also meet the requirement to deliver 1,460 hours of Australian content on their multi-channel services in metro areas and in the majority of regional Australia.

However, regional broadcasters struggle to meet their full multi-channel quota requirements in smaller regional and remote areas (particularly where they hold s.38A and s.38B licences). There should be flexibility for these broadcasters in the form of an exemption from compliance so that they are not expected to meet the requirement to deliver the 1,460 hours per annum of Australian content on the multi-channel services – in particular, where cost constraints or complex technical

issues prevent them from being able to deliver a full package of services that are available from their metro network affiliates.

In addition, where a metropolitan network meets its sub-quota obligations by releasing content online rather than as part of its free-to-air broadcast service, the affiliated regional networks should also be able to count the content towards their own sub-quota obligations.

## 2. Adjust financial incentives and conditions

The government has an opportunity to better invest the money it spends on promoting local screen content to maintain or increase the amount of local content produced, to strengthen the production industry and to improve the likelihood of generating export success stories.

### 2.1 Producer Offset

#### 2.1.1 Make the Producer Offset the same for film and TV production

Producer Offset tax incentives have played a powerful role in promoting the local production of feature films, TV drama and documentaries since they were introduced in 2007. They have been particularly effective in supporting the production of high-budget, high production value content that has performed well in Australia and internationally.

Given this success and the government's desire to stimulate the production of Australian content, we do not believe it makes sense to differentiate between feature films, which can access an offset of 40% of qualifying expenditure, and television and other eligible projects which are limited to 20%.

This is the same conclusion reached by the government's Convergence Review in 2012, which said: "Premium television content exceeding a qualifying threshold should attract the 40% offset available under the producer Offset Scheme. This will bring premium television content in line with the current rate of the offset available for feature film production."

Providing this increased incentive for TV production would encourage greater investment in the Australian production industry and provide an additional incentive for broadcasters to invest in Australian content.



# Recommendations for change

There are numerous reasons to treat television and other eligible projects the same as film, specifically:

- Television production contributes just as much to creating a vibrant industry as film production. In fact, it can have a greater impact because broadcasters typically offer longer-running employment and training opportunities, which increases the pool of Australian screen production talent for the benefit of all formats.
- There is now little technological distinction between film and TV production, and most are produced by the same pool of cast and crew talent. This can be seen behind the camera and in front, such as Nicole Kidman appearing in the American TV series *Big Little Lies*, recently produced by HBO.
- Successive editions of the Screen Australia *Drama Report* show that the costs of producing television drama have been increasing, which increases the need for the nation to support local production. In fact, the cost of producing quality television is now comparable to the cost of producing film, and can also be higher.
- The historic 'hold back' window between the release of a film in cinemas and its release on free-to-air or subscription TV platforms is rapidly closing.

In addition, we note that Producer Offset is currently only available for traditional scripted dramas and documentary programs. While we appreciate the intention of reserving offset support for certain genres, it needs to be acknowledged that these traditional forms of content are being reinterpreted by audiences and producers in the new media environment. Some flexibility needs to be applied to interpreting the genre-based restrictions to ensure the incentive schemes remain fit for purpose into the future.

## 2.1.2 Remove the 65-hour cap

The illogical and discriminatory 65-hour limit on the application of the Producer Offset to commercial TV series must be removed. Under this limit – or cap – a series is no longer eligible for the offset after it has been in production for 65 hours (about five seasons).

The rationale for removing the offset after 65 hours was that shows that survive to five seasons should have become self-sustaining. However, the reality is that the

challenges of funding a drama series in Australia do not change or ease after multiple seasons – especially in an environment of declining domestic audiences for drama on free-to-air television.

For this reason, it has been very rare for local dramas to continue beyond the 65-hour point.

Even some of the most successful current Australian drama titles such as *Offspring* (Ten) are made at a heavy loss despite being produced with assistance from the offset for the first few seasons. Once the 65-hour cap is reached, it can almost double the financial contribution required of the broadcast partner.

In short, removing the cap would allow successful titles to continue being created for longer. This would in turn deliver a range of benefits to the industry that would further the government's objectives and represent a good continued investment of taxpayers' funds.

In particular:

- Continuing to support an already successful title means the industry does not have to duplicate the disproportionate effort and expense involved in developing and promoting a new title and building an audience for it.
- Long-running title provide more stable employment opportunities for production professionals and act as high-value training grounds for future talent.
- The longer a title runs in Australia and the stronger its perceived support, the greater its chances of building export sales. Such exports deliver a financial dividend back to Australia and help to promote Australia internationally, which flows on to benefits in other export sectors, especially education and tourism. A good example is *McLeod's Daughters* (Nine), which promoted country Australia and sold well overseas.
- While some titles are successful, many aren't, so there is a need to allow broadcasters and their production partners to balance out their returns to maintain a financially sustainable industry.

Removal of the cap is also supported by the screen production industry.

## Case study: House Husbands discontinued at 58 episodes

*House Husbands* is an award-winning Australian television drama. The program first aired on the Nine Network on 2 September 2012. It has run for five seasons, employing over 100 cast and crew full-time over a 20-week period for each season.

Filmed in Melbourne, *House Husbands* stars Julia Morris, Gary Sweet, Firass Dirani, Gyton Grantley, Rhys Muldoon and Natalie Saleeba. It is based on the stories of four stay-at-home fathers and their families. It's a warm, funny and real perspective on modern families and the way we live today.

*House Husbands* has run for 58 episodes with only seven more episodes until the Producer Offset incentive terminates. However, due to the change in the competitive environment and the approaching cut-off for the Producer Offset episode cap, Nine has decided not to commission a further series of *House Husbands*.

In an increasingly competitive market where the audiences have a thirst for new and novel material, free-to-air broadcasters need to ensure that their production values are high to compete with the international dramas on the SVOD platforms. It's these pressures that lead to increasing budgets.

Commissioning drama in this new competitive environment means that Nine is approaching financing through a different lens. The ongoing availability of the Producer Offset is a key consideration for networks, together with the potential for international sales and distribution guarantees.

The networks are also accepting that the average ratings expectations are no longer what they once were – the days in which large aggregated audiences tuned in to a drama series in prime evening timeslots are a legacy which have been superseded by an increasingly disaggregated audience who have other options at their fingertips.



The current system incentivises networks to terminate long-running titles in favour of new productions to ensure we have access to the Producer Offset rebate. It is this incentive which assists free-to-air networks in making our dramas viable and means they will inevitably lean towards new productions in preference to longer running formats even though they have proven to be successful and despite viewer and industry accolades.

*House Husbands* is not the only Nine drama that has fallen victim to the cap in the producer offset. *Sea Patrol* is another example of a drama that was no longer viable without the Producer Offset.

If the cap was lifted on the Producer Offset we would be in a better position to continue important Australian dramas that have been proven to be popular with audiences and already have an established viewership at home and overseas.

# Recommendations for change

## 2.1.3 Maintain the Post, Digital and Visual Effects Offset

Another offset that plays a valuable role in supporting the strength of the Australian screen production sector is the Post, Digital and Visual Effects (PDV) offset. This is a 30% rebate that supports work on post-production, digital and visual effects for film or TV production in Australia, regardless of where a project is shot.

We believe this should remain in place to ensure that high-value post-production skills and technology remain in Australia, especially in relation to expensive reality and entertainment programs that are not entitled to the Producer Offset.

## 2.1.4 Allow commercial television to access Screen Australia funding

Screen Australia is the Australian Government's main agency for supporting the Australian film and TV industry. It provides grants, loans and recoupable investments for projects, businesses and practitioners across film, TV drama, documentary and multi-platform storytelling. In the 2015–16 financial year, the agency provided \$71.5 million in project funding for features, TV, online and documentary productions.<sup>15</sup>

Commercial free-to-air broadcasters are explicitly excluded from accessing production funding or other assistance from Screen Australia. We believe this exclusion is based on an outdated view of how the television production industry works. For example, commercial broadcasters and groups eligible to apply for Screen Australia funding all call on largely the same pool of actors and production professionals to complete their productions. In other words, Australian content is being made by the same people but under different models.

In addition, about half of all Screen Australia TV drama funding is currently provided to foreign-owned multinational production companies, most of which are much larger than Australia's free-to-air broadcasters.

In turn, we believe that commercial broadcasters – in particular, their production units – should be free to apply for Screen Australia support for relevant productions. Any proposals should then be assessed on the basis of creative merit and potential contribution to the growth of Australian content.

This change would mean that production units owned by commercial free-to-air broadcasters would be treated in the same way as any other production business operating in Australia. It would also mean the government would be free to provide its financial support to those projects and groups it believes – through Screen Australia – will best help it achieve its goals. Those objectives include generating Australian-made content and building an internationally competitive industry comprising strong, locally owned businesses.

More broadly, it's time to change the perception that 'in-house' production is different from 'independent' production and therefore less worthy of support. Our vision is that our production groups can become strong and sustainable Australian businesses in their own rights, selling to their commercial broadcaster parents as well as other platforms. In an environment of falling advertising and fragmenting audiences and channels to market, this will be critical to the continued strength of the Australian-owned production industry.

<sup>15</sup> Screen Australia Annual Report 2015–16.



## Case study: Seven Productions

Seven Productions has been responsible for creating and producing some of Australia's most popular drama programs including *Home and Away* and *Packed to the Rafters*, factual series such as *Border Security* and reality/entertainment programs such as *My Kitchen Rules* and *House Rules*.

Seven Productions is now creating more Australian content than at any time in its history – both for the Seven Network and on commission for third parties. For example, Seven Productions produces *A Place to Call Home* for Foxtel and (through its joint venture 7Beyond in the US) has recently been commissioned by The Travel Channel to produce a 12-part travel series featuring Tim Noonan, *Boy to Man*.

Seven Studios employs a large number of people, providing training, development and secure employment in a generally volatile industry.

During 2017, Seven Productions will commission, create and produce nearly 700 hours of drama, entertainment, reality, documentary and children's programming. It will also employ more than 820 people on a full-time, part-time or "run of show" basis, including writers, actors, directors and technical crew (as well as engaging the services of external resources).

Many of Seven's productions and formats have made their way to international screens, including *Home and Away*, *A Place to Call Home*, *Winners and Losers*, *Packed to the Rafters*, *My Kitchen Rules*, *House Rules* and *Border Security*. Local versions of *My Kitchen Rules* have been produced in the UK and USA, among others.

In-house production provides many people with valuable training and an opportunity to increase their skills base. The opportunity to move between run of show regular employment with a broadcaster such as Seven and independent projects is a welcome one for many in the production industry.



Many creatives take the opportunity to work on in-house productions while they go about securing their next independent project and move between the two sectors throughout their career. Seven is also expanding its presence in international content production with the formation of three new international production companies: Seven Productions New Zealand, 7Wonder and 7Beyond, as well as a major shareholding in UK-based scripted content specialists, Slim Film + Television.

Seven Productions is one of the only significant content producers in Australia that is Australian owned.

# Recommendations for change

## 2.1.5 Expand export incentives

Since the dawn of television, Australia has relied on exports of our creative talent to help shape our national identity overseas. Shows like *Skippy*, *Home and Away* and *Neighbours* have all demonstrated to the world both who we are as Australians and showcased Australia as a destination for holidaymakers. These exports have been so important that Senator James McGrath recently noted in the Senate that “television programs are electronic ambassadors for our country in the message that they take to the world.”<sup>16</sup>

This importance should be recognised by the government by providing access to similar export development schemes as are available for other industries. For example, the Export Market Development Grants scheme is a key program for small- and medium-sized businesses, and the government provides targeted programs for agricultural producers.

Other countries have similarly realised the importance of exporting creative content. For example, the US, French and UK governments all actively promote their content overseas. However, Australia has no clear strategy to drive international sales of Australian content.

In an era of increasing cost of content production, it is important to recognise the role that export sales can have in financing new Australian productions. Accordingly, the current review should recommend the creation of an export program for creative content. This could be similar to the UK's International Strategy for Creative Industries.

In this proposed model, a government agency would directly work with entertainment companies. The agency could encourage them and support them to export by creating overseas partnerships with the potential to generate new business. It could also provide financial support for marketing campaigns and participation in overseas trade shows.

## 3. Review the role of the national broadcasters

The ABC and SBS play important roles in Australia's media landscape and in helping the government achieve its cultural and educational policy objectives. This is especially the case in areas where it may not be commercially viable for other operators to deliver relevant content, such as children's programming and niche content for specific ethnic groups.

We recommend that the government reviews the role of the public broadcasters and their charters as a key part of its content review. We would particularly urge it to focus on children's programming and the impact of national broadcasters competing for mainstream commercial television content, where Australian audiences are already well served.

### 3.1. Make the ABC the primary destination for children's programming

As the discussion above shows, children and their parents prefer to access TV content through dedicated destination services. Following the ABC's sustained investment of taxpayer funds in creating and promoting dedicated ad-free children's channels, this primarily means ABC Kids and ABC ME.

The popularity of the ABC's services is reflected in the fact that all 30 of the top-rating C- and P-classified programs for children in 2016 appeared on ABC Kids.<sup>17</sup>

We would therefore encourage the government to follow current audience preferences – and build on the ABC's investment in attracting child viewers – and make the ABC the primary free-to-air service for delivering children's programming in Australia. The government could also then focus on the quality and Australian content levels gained through those services and ways to ensure its policy objectives are being met.

<sup>16</sup> Senate Hansard, Thursday, 22/06/2017, p. 4,891.

<sup>17</sup> *Children's television viewing and multi-screen behaviour*, ACMA, August 2017.

Giving the ABC a greater role in children's TV also better matches with the commercial reality of funding the content. The current regulations in the Children's Television Standard bans advertisements during P programs, and imposes strict time limits during C programs and classification requirements for advertisements suitable for broadcast during C programs. This means that commercial broadcasters can do little to offset the cost of making high-quality children's programming. Clearly the ABC is best placed to provide this type of content as it is not faced with the same commercial imperatives as other free-to-air broadcasters.

### **3.2 Avoid wasteful competition between national and commercial broadcasters**

Over recent years there has been a marked rise in the extent to which the ABC and SBS directly compete with commercial free-to-air TV to acquire content with commercial appeal. This trend is accelerating as SBS, in particular, has launched or expanded its Viceland and Food Network channels.

The content being shown on Viceland and Food Network is mainstream content that is sourced mainly from SBS's American affiliate. The impact of SBS using its public funding (government appropriation still accounts for 75% of its operating revenue) to acquire such mainstream commercial content is to drive up the cost of that programming in Australia and waste public funds on content that the commercial market would have delivered.

For example, the Nine Network was recently outbid by SBS for commercially significant food-related content that it would have shown on its 9Life channel at no cost to the Australian public. This content will add to SBS's suite of largely American cooking shows shown on its Food Network service and which do not contribute to its charter. As the SBS annual report states, the network's principal function is: '... to provide multilingual and multicultural radio, television and digital media services that inform, educate and entertain all Australians and, in doing so, reflect Australia's multicultural society'.

As it seeks to gain audiences for its advertising, SBS has also been broadcasting other mainstream commercial content such as repeats of American movies. Feature films broadcast on SBS in the past year include *Aliens*, *Kill Bill*, *Pulp Fiction* and *Star Trek*.

We would urge the government to ensure the public broadcasters are fulfilling their charters, delivering services that Australians might otherwise not receive (especially regional news, foreign language programming and children's content) and not undermining the commercial free-to-air sector by competing even more directly for advertising and driving up the cost of commercially viable programming.



all 30

of the highest-rating programs made specifically for children in 2016 appeared on ABC Kids.



# Recommendations for change

## 4. Strengthen copyright protections

### 4.1 Protect Australian content from piracy

Australian copyright law provides the fundamental framework that incentivises the production of local content and enables broadcasters and content creators to realise a return and continue to invest in the industry. This is crucial to protect our significant investment in the telling of Australian stories.

However, that framework is under threat due to moves by Google and others seeking to weaken copyright protections for content creators. This must be seen for what it is – a strategy to gain access to more free content against which to generate revenue.

Instead of undermining the framework that underpins content creation, we strongly believe that this review process should look to strengthen copyright protections by:

- ensuring a strong compliance framework that holds search providers and other content aggregators accountable for directing traffic to pirated material
- strongly supporting the existing fair dealing provisions and rejecting moves to introduce US-style fair use provision
- rejecting the expansion of the existing safe harbour scheme to carriage service providers.

### 4.2 Acknowledge the value of retransmission

Broadcasters' ability to continue to invest in Australian content is hampered by the fact that the current retransmission exception contained in section 212 of the *Broadcasting Services Act 1992* allows competing platforms to benefit commercially from retransmitting commercial free-to-air broadcasts without the consent of the owner of the broadcast. This is not in line with the intended purpose of the exception when it was initially introduced, which was to facilitate reception and self-help facilities in areas with poor terrestrial television reception.

This is an unwarranted exception to broadcast copyright protection in the Copyright Act and should be repealed in line with the recommendation of the Australian Law Reform Commission. This would bring Australia into line with international markets such as the US, where up to 15% of broadcaster revenue is derived from retransmission fees.

In the US

# 15%

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of broadcaster revenue is derived from retransmission fees.





# Appendix: Children's TV quotas

## Operation of C and P quotas

### Quota obligations:

- A minimum of 260 hours of children's C programs annually
- A minimum of 130 hours of Australian pre-school P programs annually

### Australian content obligations:

- 50% of C programs in C periods must be first-release Australian C programs
- All P programs must be Australian programs

### Time zone requirements

- All P and C programs must be shown within designated time bands
- For C programs, 7am – 8.30am and 4pm-8.30pm Monday to Friday and between 7am – 8.30pm Saturday, Sunday and school holidays
- For P programs, 7am – 4.30pm Monday to Friday

### Requirements to broadcast minimum amounts on weekdays

- A minimum of 30 minutes of P material in P periods every weekday and a minimum of 30 minutes of C material every weekday between certain times.

### Advertising restrictions

- No advertisements can be shown during P programs
- Time limits on advertising in C periods restrict the amount of advertising beyond the amounts ordinarily permitted in other programming
- Stringent classification requirements for advertisements suitable for broadcast during C programs. For example, advertisements must not be designed to put undue pressure on children to ask their parents or another person to purchase an advertised product or service, and no advertisement can be broadcast more than twice during any 30-minute period.

### ACMA classification requirements

- All C and P programming must be classified by the ACMA before broadcast in accordance with criteria contained in the CTS, and the Australian Content Standard 2016. Classification is granted for five years. In classifying programs for broadcast, the ACMA needs to be satisfied that the program is made specifically for children (in the case of C programs) or pre-school children (in the case of P programs), that it is entertaining, well produced, enhances the understanding of children (or pre-school children) and is appropriate for children (or pre-school children).





