SUPPORTING AUSTRALIAN STORIES ON OUR SCREENS

AUSFILM SUBMISSION

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SUPPORTING AUSTRALIAN STORIES ON OUR SCREENS – OPTIONS PAPER

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Introduction

Ausfilm is a unique government – industry partnership responsible for promoting Australia as a production destination to increase the level of inward investment into Australia from international film and television productions. Our membership currently comprises 44 corporate screen export businesses and 7 government screen agencies.

Ausfilm promotes the Australian Screen Production Scheme on behalf the Australian Government, with a particular focus on both the Location and PDV offsets as they are the two key incentives that drive foreign production and international investment into Australia.

Australia is a world class provider of services across a range of sectors and no less so than in screen production. Ausfilm recognises the importance of maximising the export of Australian content, but we will submit that our production services exports play a vital role in the overall economic health of the sector. According to data from Screen Australia foreign services drama production was worth an average of $378 million a year between 14/15 and 18/19.

The Australian industry broadly benefits from the large budget international productions made here. These productions provide opportunities to grow our crew base and for our existing crew to upskill and for equipment providers and post and visual effects facilities to re-invest in their businesses, ensuring they have the latest technology and equipment which is then able to be accessed by Australian filmmakers on domestic projects. There are also significant flow on benefits to the economy into areas such as hospitality, tourism, retail – all sectors hit by both the bushfires and COVID19.

Australian Content Regulation

Ausfilm will not be commenting on the specifics of Australian content regulations or the four models contained in the Options Paper. These regulations are not part of our core business. The focus of our submission is on the operation of the offsets. It may be that Ausfilm members and clients make submissions on these other issues.

Our Vision

Ausfilm has a vision for a future where a strong and continuous pipeline of internationally derived inward investment production supports and underpins a growing Australian screen production sector.

There is a boom in the demand for new screen production around the world, as more services offering original content come online and consumers are spending more than ever before on all forms of screen content. A recent report from Olsberg SPI found that global screen production in 2019 was worth $US177 billion, excluding news, current affairs, sport and unscripted television. It supported 14 million FTE jobs and had a total economic impact of $US414 billion. Importantly, the report also finds on average, 67% of production costs are spent in other business sectors outside of Screen Production.

The advent of the COVID-19 pandemic has not lessened that demand, even though it has temporarily halted production of content to meet it. Pointing to the role of screen production in supporting economic recovery from COVID-19 the report said:

Screen Production can deliver substantial and powerful amounts of expenditure in a short space of time. By way of illustration, productions can be likened to major, specialist, high-tech manufacturing operations that quickly arise, expend huge sums and employ hundreds of people, before shrinking to a handful of key operatives as the bulk of those previously employed move on to new projects.[1]

Australia has the talent, locations and facilities to capitalise on this increasing demand, creating new jobs and attracting long term investment in training and infrastructure. However what Australia is lacking is a long-term, consistent and competitive financial incentive in the Location Offset.

Ausfilm submits that with such an incentive Australia's crew depth would expand, with more Australians having the chance to gain employment in the screen industry. In addition, and as has been demonstrated from past large-scale productions, a competitive international production incentive drives foreign investment into new infrastructure across the country. As there is currently a global shortage in studio facility to meet the demand, this could be a significant opportunity for new investment into Australia over time.

This is a longer-term goal. In the short term Ausfilm submits there is currently a natural capacity in terms of crew and studios that puts a natural cap on the number of large budget productions that could be made in Australia at any one time.

The Location Offset

The Location Offset was established in 2001 at a rate of 12.5%, because all available evidence at the time was this was the competitive rate of incentive required to attract international production. This ushered in a period, between 2001 and 2006, when Australia was a very competitive location and the Offset attracted $1.2 billion of inward investment. In 2006 the Location Offset was extended to television drama series. In 2007 the Location Offset was increased to 15% and in 2011 increased to its current level of 16.5%.

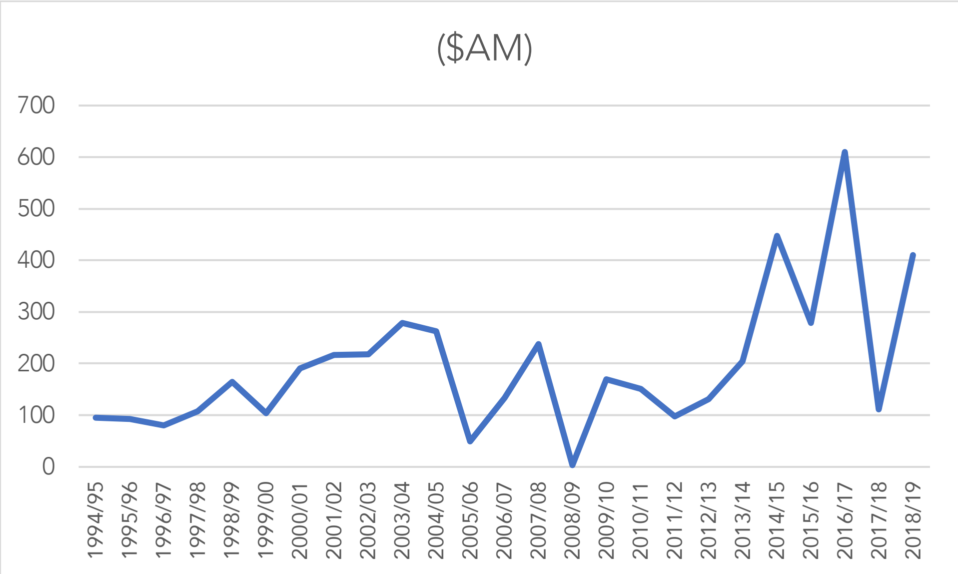
As the amount of footloose production increased, so too did the number of jurisdictions competing to attract that production, increasingly offering incentives that were more competitive than Australia for location shooting. For example, the UK introduced a 25%

[1] Global Screen Production – The Impact of Film and Television Production on Economic Recovery from COVID-19, p.6 https://www.o-spi.co.uk/wp-content/uploads/2020/06/Global-Screen-Production-and-COVID-19-Economic-Recovery-Final-2020-06-25.pdf

incentive in 2007 that was immediately effective in growing the amount of inward investment into the UK from GBP604 million in 2008 to GBP1,741 million in 2019. Similarly, over the same period foreign service production in Canada has grown from $C1,700 to $C4,858, and now represents 50% of the value of the screen production sector in Canada.

Because they have had stable and competitive incentives, both Canada and the UK have enjoyed consistent growth over a long period. In comparison Australia's growth has been much more inconsistent and uneven as demonstrated by this graph.

Graph 1: Foreign Drama –Spending in Australia 1994/95 to 2018/19



Source: Screen Australia

In 2009/10 due to the combination of a high dollar (relative to the US dollar), increased competition and an increasingly uncompetitive Location Offset, Australia's ability to attract inward investment faltered. The policy response from governments since then has been to "top up" the Location Offset with individual project grants or more recently with the Location Incentive program.

In April 2012 the then Labor government attracted *The Wolverine* to shoot in Australia with a top up commitment of $12.8 million to effectively take the incentive to 30%.

In March 2013 the then Labor government also announced the establishment of a Location Incentive Fund of $20 million "as a precursor to an increase in the Location Offset should the Australian dollar remain high". The Fund topped up the 16.5% to 30% and with the support of the Government five productions accessed the Fund – the feature films *The Moon and the Sun* (now titled *The King's Daughter*), *Unbroken* and *San Andreas*, as well as the television series *Hunters* and *Childhood's End*.

In April 2013 the Labor government announced an agreement with the Walt Disney Company for a top up payment of $21.6 million for *20,000 Leagues Under the Sea*, an equivalent additional 13.5%. The current government agreed to Disney applying this contracted amount to *Pirates of the Caribbean: Dead Men Tell No Tales* when *20,000 Leagues Under the Sea* was put on hold due to casting complications.

In October 2015 the current government announced a combined grant of $47.5 million to The Walt Disney Company/Marvel Films to attract to Australia *Thor: Ragnarok* and 20th Century Fox for *Alien: Covenant*, which again effectively took the Offset to 30% for both productions. In November 2016 the government also announced that a top-up grant would be given to Warner Bros. to shoot the DC Comic superhero film *Aquaman* in 2017.

Without these grants few, if any, of these foreign productions would have come to Australia. The clearest recent evidence of this is that the total amount of foreign drama declined from $610 million in 2016/17 to $96 million in 2017/18. What is more, of that $96 million, some $88 million was PDV work by projects that shot outside Australia and accessed the 30% PDV Offset.

In the 2018 Budget the Government allocated $140 million over four years to the Location Incentive Program which effectively provides an increase to the Location Offset rate from 16.5%to 30% for eligible large budget international productions that film in Australia from 1 July 2018.

As of June 2020, the Government has announced grants from the Location Incentive to a total of $122 million, which has supported production worth $950 million July 2018 through to mid 2021 across three Australian states.

The introduction of the Location Incentive made Australia temporarily competitive, and has secured ten projects to date. It has without a doubt demonstrated that a 30% location incentive drives interest in Australia as a production destination from the major international producers, such as Disney, Paramount Pictures, Legendary Entertainment and Netflix.

As a solution to address the uncompetitive nature of the Location Offset, the Location Incentive has been welcome, but it does have market limitations and Ausfilm submits is not a long-term solution to the problem.

The Location Incentive lacks certainty – potential projects cannot be certain they will get the grant- and it is more complex than the Location Offset, in that applying for a grant is not the same as knowing that if the project is undertaken in Australia the offset will be paid once production is complete.

The Location Incentive also mitigates against fast decision making, which can be an important factor in attracting foreign production, because of the timeframe involved in applying for and receiving a grant. Also, the capped nature of a grant does limit the ability to do significant post-production in Australia, where the estimated production expenditure has been reached and the project is not eligible for the PDV Offset.

In contrast, a Location Offset at 30% is simple, certain and is not capped on a project basis. This feature would put Australia on a level playing field with the UK, Canada and other jurisdictions and would stimulate the growth of the cohesive ecosystem of the Australian production industry and the companies and crew who work on foreign productions.

A 30% Location Offset is the only way to drive a continuous pipeline of international production across Australia, creating confidence, security and certainty to Australian workers and Australian screen businesses.

Cross platform offset levels

The Options Paper canvasses the proposal that the Producer, Location and PDV Offset be set at the same level, thus creating a platform neutral approach. Ausfilm supports the idea of a platform neutral approach and submits that the appropriate level for the Offset rebate should be 30%.

The PDV Offset is already at 30% and for the reasons set out above we submit the Location Offset should be at 30%.

Setting the non-feature film Producer Offset at 30% would make investment in Australian originated television drama production more attractive to international investors and would certainly assist in the production of more High-End Television production from Australia for the international market place.

For Australian feature films setting the Producer Offset at 30%, rather than the current 40%, would mean a significant change and it may be argued that it could make it harder to finance some features. Ausfilm sees two alternatives that could address these concerns:

- 30% with a 10% "cultural uplift" for certain productions that meet particular certain significant Australian content tests, based on those set out in the current SAC test for the Producer Offset, the Australian Content Standard and the Official Co-production requirements; or

- Retaining the 40% level of the Producer Offset up to a certain budget level after which the Offset is set at 30%.

The latter alternative is simpler to administer and would need to be supported by a SAC test that applied equally to all budget levels. It still offers a level of support to large budget studio financed Producer Offset productions, while giving maximum support to lower budget productions.

PDV Offset

The PDV sector is an essential part of the Australian screen production landscape. It has global recognition for the quality of its work on both Australian and international productions.

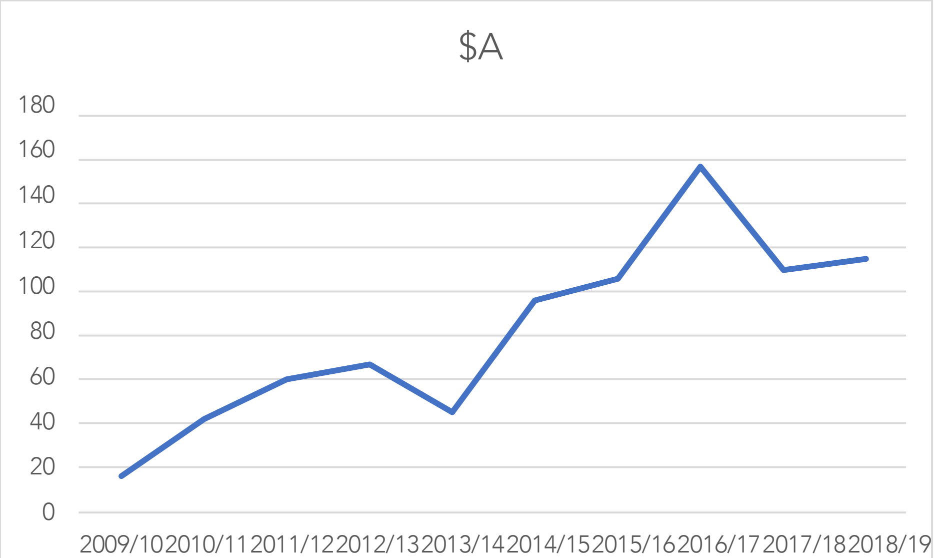
Most, but not all, of the PDV work on foreign production goes to VFX services. Australian production also has a demand for VFX services, however most Australian productions do not have the budget for the highly complex visual effects required by large budget international features. Ausfilm supports any measures to encourage more work for sound and picture post, whilst not changing the system for VFX.

Internationally, the demand for VFX services has grown in recent years, as worldwide production has increased, driven by new distribution platforms such as proliferating streaming services and increased demand on more conventional platforms. Consumer demand for high definition visual experiences, with engaging visual effects and realistic animation has led to films and television being produced with more animation and VFX shots. As this demand has increased, so has the competition around the world to attract this work. Australia regularly competes for high end VFX work with Canada which offers an incentive of up to 40% in certain provinces; and the UK which has an incentive of 25% but also has the added advantage of being the home to many large budget feature film and television filmmakers.

The PDV Offset was introduced in 2007 at the same time as the Producer Offset. The purpose of the PDV Offset is to attract post and visual effects work to Australia from productions that have shot elsewhere. Since the PDV Offset was increased from 15% to 30% in 2011 it has been extremely successful in growing the skills and capacity of the PDV sector and attracting international business as is shown in the presentation of the data in graph 2 below.

The success of the PDV Offset over that period has allowed businesses to expand, diversifying from servicing domestic production to international work; to invest in new technology and produce innovative solutions to complex visual effects challenges requiring ingenuity, artistry and innovation to produce the world class work that Australia's leading companies are known for.

Graph 2: Foreign Drama – PDV Spending in Australia 2009/10 to 2018/19



The PDV Offset combined with PDV incentives offered by the states has also seen Technicolor establish a new state of the art facility in Adelaide under the brand name Mill Film (now Mr X) and Disney establish a branch of Industrial Light and Magic in Sydney. This demonstrates what a competitive and stable incentive policy can achieve in attracting inward investment in infrastructure and creating new jobs.

Administration of the Offsets

Under the Income Tax Assessment Act 1997 responsibility for administration of the Location and PDV Offsets is undertaken by the Minister for the Arts through his Department, while administration of the Producer Offset is undertaken by Screen Australia as the designated screen agency. Both form part of the Australian Screen Production Incentive.

As the organisation charged by the Government to market and promote the Australian Screen Production Incentive internationally, Ausfilm submits that the current administration of the program is well understood by international clients and has been successful in facilitating production in Australia. As a consequence, we would recommend no change be made to the current administration of the programs.

Conclusion

The increase in production generated by the Location Incentive over the past two years, demonstrates that Australian businesses and Australian crews have experienced ehanced work opportunities, have been able to grow their businesses, employ more FTE's and invest back into their businesses and training programs. And, it creates an environment in which private enterprise and government begin to consider investing in infrastructure. However, it is almost certain that when the fund runs out of money, the productions will cease coming to Australia which places our crew and screen businesses back in the untenable position of job insecurity.

It is clear there is the need for a permanent 30% Location Offset to capitalise on foreign direct investment, drive a consistent pipeline of productions and ensure Australia is best positioned to increase its market share in international production activity. This will contribute to the long term growth and sustainability of the entire Australian screen sector.

A competitive suite of incentives will allow Australia to take advantage of the growing demand for content globally and Australians could benefit from access to new jobs for the future that are resistant to automation, clean and green, agile and highly technically creative.