

AUSTRADE SUBMISSION TO OPTIONS PAPER FOR SUPPORTING AUSTRALIAN STORIES ON OUR SCREENS

3 JULY 2020

SUBMISSION SUMMARY:

1. Austrade supports the Government's consideration of options for *supporting Australian stories on our screens* and recommends the modernisation of the *Australian Screen Production Incentive* to help the screen sector grow and flourish, as well as compete internationally.
2. Overseas investors and content producers are integral components of robust and profitable Australian TV, film and digital games sectors. They support the industry to find viable and self-sufficient ways to produce Australian stories for Australians and global audiences.
3. Austrade recommends updating the exclusion list for the *Post, Digital and Visual Effects (PDV) Offset* to remove 'computer games' from this list. As well as supporting platform neutral funding and a consistent offset to assist Australian content, this would encourage Foreign Direct Investment (FDI) from global technology companies and grow Australia's current digital games sector into a competitive and vibrant sector.
4. Austrade recommends the *PDV Offset* be set at a single rate for content on all platforms, creating a neutral and simplified approach to promote Australian content and attract much sought-after investment.
5. Austrade encourages the recognition of digital games as another platform to tell Australian stories for Australian and global audiences. Australian digital game products are highly interactive, engaging and designed for diverse audiences across all age groups. They resonate in Australia, cross-culturally and across borders.
6. Austrade recommends aligning and expanding the definition of the 'screen' industry to be consistent with internationally accepted practices. This would help develop and maintain the skills required by the industry to remain competitive. In particular, further consideration should be given to the digital games sector as part of screen industry, since it is increasingly providing a cutting-edge, well-developed pool of skilled workforce that is in demand in Australia's television and film sectors. These skills would be transferable and help connect the screen industry to other digitally enabled industries (i.e. industry 4.0).
7. Austrade recommends eligibility for access to Australian content offsets should not be limited to Australian drama, documentary and Children's content, nor limited to 'new content'. This would support a modernising screen industry that is adopting new technologies to provide Australian stories. It would also make the industry more adaptable to meet the expectations of content producers and increasingly discerning audiences in Australia and internationally.
8. Austrade recognises the adoption of digital games technology and skills by film and TV producers to facilitate real-time production. Globally, COVID-19 restrictions have pushed increased efficiency through new forms of production. Appropriate incentives can help Australian creative studios to grasp this opportunity and pivot their screen and entertainment products, making the sector more competitive and attractive to investors.

BACKGROUND

The Australian Trade and Investment Commission (Austrade) is the Australian Government's international trade promotion and investment attraction agency. We deliver quality trade and investment services to businesses to grow Australia's prosperity. We do this by generating and providing market information and insights, promoting Australian capability, and facilitating connections through our extensive global network.

Austrade supports policy measures that facilitate the growth of Australia's screen exports and enhance our globally competitiveness in attracting investment into Australia's screen industry. Austrade sees investment from foreign production companies, as well as investment into the physical infrastructure and virtual technology, as underpinning the sustainability of the entire local screen ecosystem. This includes investment from screen studios and producers into visual effects (VFX) and the digital games industry which is essential to facilitate the export of Australian stories, content and services.

Austrade defines the screen industry as encompassing film, television, games, streaming or subscription video on demand (SVOD), augmented reality (AR), virtual reality (VR), and other interactive and immersive platforms. Austrade works with businesses across that spectrum including multinational entertainment companies, technology companies, producers, screen production and digital game studios, publishers and distribution companies.

Austrade recognises that the technological and creative skills, as well as commercial acumen underpinning the screen industry, are increasingly interconnected across the entertainment industry. Both globally and across Australia's new business models and platforms, new services like subscription services, are impacting the TV and film industries and are also changing the digital games industry. Equally, technical advances in digital games technology are changing the way movies are made with the advent of virtual production studios. Human creative skills combined with technology is changing how consumers, businesses, institutions and government engage with each other, with constant innovation and new business models emerging. These trends and skills are not only critical to the sustainability of the creative and entertainment industries, but fundamental for the digital transformation of the overall economy and Australia's future prosperity.

DIGITAL GAMES SECTOR AND SCREEN INDUSTRY

Austrade recommends the inclusion of the digital games sector in the *Australian Screen Production Incentives* to enable investment into Australia and create new export opportunities in the screen industry. The global digital games market (US\$196 billion by 2022)¹ is worth more than the film and music sectors combined. Such a change would recognise the increasingly important role the digital games sector has as part of the Australian screen industry and can enable the industry to become more sustainable and grow. This is especially important because Australia's digital games sector is an export-oriented sector with 83 per cent of revenues coming from export markets. However, it remains a small player globally with only 0.05 per cent of the global market.

The *Australian Screen Production Incentives*, in particular *PDV Offset*, has been very effective in attracting PDV skills and capabilities into Australia and growing the visual effects (VFX) sector. For example, 26 of the 37 foreign projects were PDV-only, and spending \$113 million on PDV work in Australia. Leading global VFX companies from the USA have invested and established studios in Australia, encouraged by the certainty of federal and state incentives to attract this investment. Two notable examples include:

- **Disney's Industrial Light and Magic** who announced ([link](#)) their expansion into Sydney last year, creating 500 full-time equivalent (FTE) jobs and delivering an estimated \$333 million in post-production business in the first five years and \$100 million each year thereafter.
- **Technicolor** established **Mill Films Studio** in Adelaide in 2018 ([link](#)) with plans to employ 500 FTEs earlier than its original five year target.

Trends in VFX and Screen Industry

The screen industry has seen the adoption of video game technology (game engines) for both VFX work and real time production which is having significant impact on the way films and TV series are made. Advances in game engines, in particular *Unity* and *Unreal*, that are used by Australian game studios, enable visual effects to be captured live on-camera during shooting, providing a ground-breaking new methodology for screen

¹ Source: Newzoo Global Games Market Reports 2019.

producers. For example, over 50 per cent of the first season of *The Mandalorian* was filmed using the *Unreal* game engine ([link](#)) eliminating the need for location shoots.

This trend is also accompanied by significant changes in the entertainment business model where VFX studios are producing content for both TV/film and tie-in video game products i.e. Star Wars. Austrade is aware that all major Australian VFX companies have or are considering adopting games technology to meet demands by Hollywood and international producers. As virtual production technology leads to an increased adoption of game engines, more Australian VFX businesses will be expected to provide their services concurrently to both sectors to secure contracts. Not doing so risks missing out on lucrative integrated projects. The exclusion of digital games from the *PDV Offset* is significantly hindering Australia's VFX and screen industries ability to remain globally competitive.

GROWING THE SCREEN INDUSTRY THROUGH INVESTMENT

Investment in the screen industry is a priority for ensuring Australia is able to continue producing Australian content and telling Australian stories. Investment is crucial to build the technical skillsets needed to harness creative talent capable of producing original content.

Austrade has prioritised investment from the digital game sector because of the growth prospects of the sector (US\$196 billion by 2022), its role in the screen industry, and its ability to grow the overall size, scale, export revenue and commercial return of the local industry. Australia's digital games sector in its own right currently only generates revenue of \$143.5 million per annum with 1,275 full time equivalent (FTE), with 95 per cent of studios employing less than 10 people but Austrade believes it has strong potential to grow and create considerably more jobs.

Investment in TV and film sectors

The Australian screen industry faces a highly competitive environment for TV and film production. In addition to tax incentives, investors are also seeking skills, certainty, safety and ease of process to produce content in Australia. While Australia has a reputation for award winning creativity and 'can-do' attitude, we can improve our incentive offerings and application processes for production to gain the competitive edge.

The *Australian Screen Production Incentives* could be made more easily understood through using globally recognised terminology and processes. This could include making the application process more transparent and easy to use, possibly through a user-centred design process. This could also extend to Australia's COVID-19 compliance and risk management regime. Australia has an opportunity to work within COVID-19 restrictions and position itself as a preferred, safe location and trusted production centre for the screen industry through a collaborative partnership between industry and government.

Measures and government assurances that encourage insurance companies to back and insure productions are also essential to fast-track recovery of the TV and film sector.

Investment in a competitive digital games sector

The Australian digital games sector has grown by 21 per cent from 2017-18 to 2018-19. The Australian sector, while small is very engaged in competing in the global market, with 83 per cent of the income generated by Australian developers coming from overseas sources and the sector building a globally-recognised reputation an independent digital games industry.

However, potential investors have advised Austrade that the major barrier to their expansion plans for the Australian market is that Australia favours film and TV industries by not offering a single flat rate offset for all platforms. Australia also specifically excludes digital games. Given the strong competition from other developed markets, changing those policy settings has the potential to underpin digital transformation within the sector.

The incentives offer in other jurisdictions highlight important role of digital games in the screen industry:

Country	Jurisdiction	Incentive
Singapore	Federal	40%
France	Federal	30%
UK	Federal	20%
Canada	Quebec province	30%
Canada	Ontario province	35%
Canada	Manitoba province	35-40%
Canada	Nova Scotia province	25-50%
USA	Colorado & Georgia	30%
USA	New Jersey	30-35%
USA	New Mexico & Tennessee	25%
USA	Texas	22.5%

Further, economic analysis of tax offsets for the digital games sector has demonstrated returns on taxation revenue and creating full-time jobs. In France, every €1 of support contributes to €8 of additional investment and €1.80 of additional taxation revenue.² In the United Kingdom, for every £1 of tax relief, £4 is contributed to the British economy.³ In 2016, the £78 million spend in tax offsets via the Video Games Tax Relief (VGTR) scheme helped generated £390 million in game development expenditure, provided £294 million in Gross Value Added, directly supported 4,640 full-time jobs and helped to generate £156 million in tax revenues through the video games sector.

MODERNISING TO A MORE COMPETITIVE INDUSTRY

In summary, Austrade recommends that the *Australian Screen Production Incentives (Producer, Location and PDV Offsets)* be set at a standard rate across all content and platforms at 30 per cent. This would modernise the incentives and support the Australian screen industry to grow, create export opportunities and attract productive foreign direct investment as technology, consumer preferences and business models continue to undergo change. This specifically includes:

- Modernising the *PDV Offset* by ensuring the eligibility requirements are flexible enough to cover new and emerging forms of content production.
- Expanding Australian content beyond drama, documentary and children’s content to ‘new content’ across the screen industry to encompass film, television, games, streaming or Subscription Video on Demand (SVOD), and other interactive platforms.
- Simplify the incentives /offsets application processes and guidelines to be easier for international producers to access and provide Australia a competitive edge.
- Set the *Producer, Location and PDV Offsets* at a single rate of 30 per cent for content on all platforms. Creating a platform neutral approach will encourage foreign direct investment into the industry, creating jobs and upskilling the Australian industry. Producers will be encouraged to produce end-to-end screen content in Australia and increase our content creating capability.
- Clarifying the future of the *Production Offset* and *Production Incentive* programs. Investors are uncertain of Australia’s ability to remain a competitive location for production in the medium-to-long term without a permanent 30 per cent Production Offset. In particular, the \$140 million budget allocation until 30 June 2023 is understood by industry to be almost exhausted with only \$18 million remaining.

² Source: NZGDA, p. 31, citing Deutscher Games Fonds, Ernst & Young analysis of *Fonds d’Aide au Jeu Vidéo for Game*, the German Games Industry Association, 2018.

³ Source: *Screen Business: How Screen sector tax relief power economy growth across UK*, Summary report, British Film Institute, 2018