**Introduction**

I am a Masters: Business and Leadership student at AFTRS. For the past 12 months, all I have done is study the business models for the Film and TV Industry.

We produce the same amount of content as we did 20 years ago, but now our population has doubled! Supporting the Australia Film and TV Industry is **about JOBS. 35-40,000 JOBS!**

I simply don't agree with the notion that Australian's want to watch Australian stories. Consumers aren't purchasing Netflix and Disney for their broad range of Australian content. They are doing so because its cheap, ad-free, convenient and quality entertainment.

They are doing so because the market for content has diversified. There is no longer a 4-channel oligopoly and a pay-tv monopoly. There is a free market (the internet) where consumers can purchase their entertainment on demand.

There is a radical market distortion, occurring around streaming businesses and the reality is that none of those businesses are making money. They are all attempting to grab market-share and are spending billions attempting to do so. They aren't following the laws of the free market in setting prices to maximise profitability. This market failure is the reason why there needs to be government intervention in the Australian marketplace.

The current system does not support the production of quality Australian content. Broadcasters provide the bare minimum hours for all of the content categories, Netflix calls a Hannah Gadsby Comedy Special, "meeting its Australian Content requirements" and the producer offset pays out regardless of the quality of the production.

One of the key Screen Australia stats is that FTA television viewing has dropped from 2m to 1m people per hour in the last 10 years, and that during a period that has seen our population increase by 10%. FTA is dead, Channel 9/Fairfax/Stan is profitable, Channel 7 is almost broke, 10 was broke and is now owned by CBS. Foxtel is rapidly losing subscribers and the ABC/SBS are govt funded. Australian content is almost completely underwritten by the Australian Government.

Currently there is a massive amount of "red-tape" in the financing of feature films and content, none of which has made the industry sustainable or profitable. There is an enormous amount of time wasted on making funding applications which are not meritoriously allocated, have minimal chance of success and simply don't support the Australian industry.

Simply if producers at any level had access to 5 years of continuous funding, rather than 15 years of intermittent income, most of the Screen Australia programs would not be needed. Producers would be able to develop 3 short films in their first year, then develop 3 series pilots in their second and third years and finally 3 feature films in the subsequent 3 years.

At the end of that 5-6 year period, producers should be successful enough to be able to self-fund a production.

**The Problems in the Australian Market Place.**

There are only 2 issues in the Australian Market Place.

1) Jobs
2) Tax Revenue

**Jobs**

There are in excess of 30,000 jobs in the Film/TV Industries. The industry survives on government subsidies, if you remove the subsidies you will remove the jobs. Almost every tax jurisdiction in the world has a subsidy for Film and Television, if we aren't internationally competitive then all these jobs will be lost.

More to the point, having local production creates a lot more than jobs, it creates careers. Historically film professionals would go to school, win/place in a film festival, get a commercial with a broadcaster or a news segment, move up to a 30min episode, then a TV movie, then a commercial film etc. There is a career path that is developed through having a local broadcast and production industry. Without having that local industry, we are preventing new blood from entering the marketplace to rejuvenate and grow the industry.

**Tax Revenue**

The basic premise of taxation is that if you pay tax in the jurisdiction that you operate in. The internet has enabled a large amount of revenue to be removed from Australia by multi-nationals including the international film and television industries.

Subscriptions or adverting revenue are both booked in offshore tax-havens. While Subscriptions for say Netflix and Disney charge GST, this is not a tax on the business profits rather an impost on the consumer that is added to the cost of the Subscription. It is also a revenue source that goes entirely to State Governments, leaving no Federal Funding to support the Industry at a national level.

Advertising is treated the same way.

As of 1 June 2019, Netflix had 11.5 million subscribers, assuming that these subscribers paid the medium tier (to get HD and multiple screens) the annual revenue is $1.932 Billion. Of which $175 million is GST. Netflix has 17.5% of the market.

The easy way is to have a deeming tax, similar to what we do with pensioners, we know that they have assets and we deem them to earn a certain amount with those assets. The government can essentially say, we are going to take 20% of your revenue as a deemed profits tax.

If the company expends money on a local production, then that can be offset against the deemed profits tax. For instance, if the company has $2 billion in revenue and has to pay

$400m in deeming tax, but spends $100m on a local production, they only need to pay $300m in deeming tax for that financial year.

I would point out that this would raise approximately $2.2 billion in funding for the Australian Screen Industry and that's not including advertising revenue.

**The Industry Models**

Historically the models involve a production company making content, then using a distributor to sell that content to various geographical locations around the world and releasing the content in various staged releases, such as Theatrical, Pay-Tv, FTA, DVD, Streamer. This brought in multiple income streams for producers over the long run, allowing their businesses to be self-funding.

The internet has removed the need for distribution (except for small niche markets) and as a result there has been experimentation with various models, to see what consumers prefer, grow market share, etc.

There are 2 models.

**Aggregate demand**, put all the content in one place and let consumers watch what they want. This is basically the Netflix model, based on Video Chain stores. This is also the YouTube model.

**Direct To Consumer**, This is basically the Disney model. Disney has a huge catalogue, it is progressively not renewing its licensing around the world and bringing everything back in-house for the Disney Channel (s)

Personally, I think that the Direct to Consumer model will be the prevailing model, studios with large back catalogues don't need distribution, when they can invest in the streaming solution themselves.

There may be a secondary level of aggregate streamers who specialise in independent, documentary, children's or genre content.

**Financing**

There are four possible financing models.

Paid – Where consumers pay either to view specific content or a subscription for all you can eat. (Netflix, Apple.TV, Amazon Prime, Disney)
Ad-supported – (You-Tube, FTA)
Hybrid (advertising and subscription) – (Foxtel)
Free – (Government sites like ABC, SBS)

The important thing to note here is that regardless of the financing model adopted, almost all of the revenue is flowing out of Australia as a non-taxable stream. This is also the reason why content needs to be converged with advertising as part of an overall solution to the problem. If we merely taxed subscriptions, everyone would move to a revenue based model and vice versa.

**The Interventions**

**Content Quotas**

The government cannot control what content consumers watch or on what platforms they watch it. For this reason, all industries from FTA, Pay-TV and SVOD's and free services such as YouTube and Facebook, need to be treated equally in terms of content quotas.

As consumers have a choice in their viewing habits, there is no point in requiring broadcasters and streamers to commission certain types of content, if broadcasters only produce low cost reality tv, or sporting events, then as we have seen, consumers will purchase Netflix, Stan or Disney subscriptions, Children's content can be watched on the ABC or Disney and Documentaries can be watched on National Geographic or other such channels.

The government can control, which streamers can broadcast into Australia. Streamers use the internet for delivery and the government already blocks sites related to pornography, gambling, terrorism, etc. The greater majority of the industry are publicly listed companies and they are going to comply with various jurisdictional limitations because of these listing requirements.

**Screen Australia & Screenworks**

Revenue raised from the above deeming tax, should be allocated to Screen Australia specifically for a Production Fund.

Screenworks (or other Regional Groups) should receive 20% (pick a figure) to create a Regional Production Fund.

The States already receive the GST revenue, so there is no additional revenue support for them.

**Production Fund**

The Production Fund should have 3 tiers that each applicant can make 3 applications. The fund should finance 60% of the project and the balance can be financed by the Producer Offset or State Entities.

The first tier would be short film finance to a value of $60000.

The second tier would be pilot finance to a value of $150,000.

The final tier would be film/series finance that is capped at $6m.

Once producers have received their film/series allocation, they should be sufficiently entrenched in the industry so as not to require further funding, however any funding that is unallocated in a financial year could be allocated on a round robin basis to experienced professionals

**Producer Offset**

The market for content has changed dramatically over the past 20 years. Feature Films are almost entirely either $5m independents or $500m block-busters. Film actors are now regularly pursuing televisions series, and people binge watch entire series in a weekend rather than watch them weekly at the same regular time.

Over the past 10 years there has been a corresponding drop in Feature Film production, while there has been an increase in Series Production.

The producers offset should be lifted to 40% for all content, be it features film, series, doco or online.

Producers should NOT be able to use the offset as a cashflow mechanism to fund the current production.

The current restriction of 35 commercial house for a series should be removed. If a successful series is funded by the offset, it NEEDS that offset to be produced. We don't want to stop successful Australian shows from being produced!

The caps on the production offset should be substantially reduced so that online creators (which is now the world of film incubation) are able to claim the production offset. If your production is financed by the Production Fund, you should automatically be eligible for the 40% producers offset.

**Conclusion**

The Australian Film Industry is almost completely dependent on Government subsidies to survive, removal of those will decimate the industry. The existing mechanisms are antiquated and don't address the needs of producers and film/tv professionals in the current marketplace and have failed in their stated goal to create a sustainable film and television industry.

It's time for radical change to reduce red-tape in production finance and for overseas multi-nationals to contribute to the Australian economy.