

Friday, 3 July 2020

To whom it may concern,

[RE: AUSTRALIAN STORIES SCREEN OPTIONS PAPER]

I am writing on behalf of Rising Sun Pictures Pty Ltd (RSP), a Visual Effects (VFX) provider based in Adelaide, South Australia. With over 30 years' experience in filmmaking as a Director of Photography, Visual Effects Supervisor, and as Managing Director and Co-Founder of RSP, I would like to provide some observations relevant to the Australian Stories Options Paper.

#### ABOUT RISING SUN PICTURES

RSP has been producing meticulously crafted visual effects for Hollywood blockbusters for more than twenty-five years and is one of Australia's leading VFX houses. Along the way, we've been recognised with a plethora of awards, such as the 2019 National Creative Industries Exporter of the Year, Visual Effects Society awards, as well as British Academy of Film and Television Awards (BAFTA) and Academy Award nominations. Out of necessity, we have innovated and created products that have become industry standards including remote collaboration tool cineSync, whose development culminated in an Academy Scientific and Technical Award in 2011 and a Technical Emmy in 2018.

We have also been the launch pad for artists who have travelled far and wide, and have built a strong, talented and experienced core team. Currently, we have over 170 staff who work together to create memorable screen moments.

RSP has a unique training infrastructure that it has developed over time called RSP Education, a partnership with University of South Australia that creates job-ready artists. This initiative is not simply to funnel staff into RSP, but to make RSP's South Australian location a creative centre-of-excellence. Over 60% of graduates from our courses go on to find immediate work in the global, resource constrained, VFX industry, with others finding work in related industries and technologies.

RSP's platform and pipeline underpin the ever-increasing drive for complexity and scale, while remaining nimble enough to adapt as new challenges present. Our approach has propelled RSP to continued success and enabled us to be trusted partners on a string of film projects, with over 150 films to our name including Ford v Ferrari, Dumbo, Captain Marvel, X-Men: Dark Phoenix, The Predator, Tomb Raider, Peter Rabbit, Thor: Ragnarök, X-Men: Days of Future Past, as well as Amazon's The Boys Season 2 and the landmark HBO series Game of Thrones.

#### RSP'S POSITION

As a corporate member of Ausfilm, our view regarding federal support and incentives of the Australian screen industry aligns with Ausfilm's position.

Specifically, RSP recommends:

1. The Location Offset be combined with Location Incentive, as a permanent 30% Location Offset that is reliable and predictable for eligible projects
2. If not, then retain the Postproduction Digital Visual Effects (PDV) Offset at the current 30% and allow it to be used in combination with the Location Offset/Location Incentive combination
3. 30% is the right level for PDV, but only with State incentive support
4. TV and Streaming have the same levels of incentive as film production

THE LOCATION OFFSET BE COMBINED WITH LOCATION INCENTIVE, AS A PERMANENT 30% LOCATION OFFSET THAT IS RELIABLE AND PREDICTABLE FOR ELIGIBLE PROJECTS

The current 16.5% Location Offset is not competitive in a global landscape, leading to the stop-start levels of physical production seen in Australia in the past 15 years. This work stimulates the development of advanced film making talent and resources that are then available into the domestic content creation industry.

The current lack of certainty for filmmakers with Location Incentive monies means Australia is not reliably on the filmmaking map as a destination for major production and thus companies struggle to develop sustainable businesses and skills. The incentives under review are not needed to set off an inefficient production industry, rather to counter competitive efforts globally to lure production to other jurisdictions.

Recent analysis of data from the past 3 years suggests that RSP projects are sourced using the following mechanisms:

- 76% from the PDV Offset
- 17% from the Location Offset with the Location Incentive
- 7% from the Producer Offset

Clearly, most of our revenue is sourced from projects filmed overseas. However, RSP observes a direct correlation between projects that film in Australia, the size of awards made to Australian vendors and the level of interaction and subsequent skills transfer that occurs to Australian film makers. With PDV work on tentpole productions being broken up between 2 and 17 providers for risk management, our experience demonstrates that the awards made when projects film in Australia are typically double the size of those made where projects are filmed elsewhere in the world.

Where projects film overseas, RSP typically sends 1-2 staff to attend set for 2 weeks. When they film in Australia, the production typically has contact with up to 30 staff on our side and we build direct relationships with the filmmakers themselves, bringing valuable skills, relationships and experience to our team members that persist into future projects and broaden our relationships, driving business sustainability. However, the same effect is seen elsewhere, and sustained production activity in the UK and Canada has built a plethora of companies like RSP and thousands of trained and highly skilled artists. Where RSP seeks to work on offshore



projects, we're in direct competition with companies local to the projects who are providing sustained face to face contact and we see smaller awards as a result.

The lack of continuity of work, both physical production and PDV, has led to a flight of talent from Australia. While our abovementioned training programs deliver new talent into the workforce, we struggle to retain mid-level and senior talent, which heads to more prolific and reliable production destinations. We subsequently need to recruit from the global market, and visa cost, processing time, requirements, transfer and certainty, restrict our ability to be successful and harness opportunities as they arise.

RETAIN THE POSTPRODUCTION DIGITAL VISUAL EFFECTS (PDV) OFFSET AT THE CURRENT 30% AND ALLOW IT TO BE USED IN COMBINATION WITH THE LOCATION OFFSET/LOCATION INCENTIVE COMBINATION

The current Location Offset + Location Incentive packaging has a perverse effect in that projects filming in Australia under this scheme frequently leave little or no PDV work due to the fact that production over runs or shortages of Location Incentive mean their incentive is realised on their shoot, with any additional PDV work attracting only 16.5% and therefore placed in higher rebate jurisdictions. The combination of these rebates frequently results in considerably worse outcomes for Australian PDV companies and there are many instances of projects filming in Australia and performing all their PDV in Canada.

If the intention is to grow sustainable screen businesses, it is counter intuitive to be turning work and growth opportunities away from Australian PDV companies and talent.

If there is not a simplified Location Incentive that captures location and PDV activity at 30%, then at least allow the combination of a 30% PDV with Location Incentives in a way that does not compromise PDV companies access to projects filmed in Australia.

30% IS THE RIGHT NUMBER FOR PDV, BUT ONLY WITH STATE INCENTIVE SUPPORT

With PDV work being globally mobile and following exchange rates and rebates, and assuming talent is also globally mobile, the level of the rebate is a critical factor in deciding where projects will be placed. Globally, the highest PDV rebates are to be found in Quebec and Bavaria with between 42% and 45% of gross spend rebated. The effects of their implementation have been the rapid growth of their industries and flight of Australian talent to these jurisdictions.

Prior to the introduction of additional 10% 'top-up' incentives in South Australia, rapidly followed by NSW, the Australian 30% incentive caused Australian facilities to have to aggressively discount to acquire reliable work, cutting into already slim margins and suppressing companies' ability to invest in talent and research.

The state rebates have pushed Australian states where they exist to levels where companies can acquire more reliable flows of projects while maintaining profit margins. The incentive level does not need to be *at* the top of the global rebates but needs to be *near* the top to remove the significant margin pressure on PDV businesses created by offshore incentives.



A cut to the PDV incentive or significant change in its terms would materially harm the PDV businesses in Australia.

#### TV AND STREAMING HAVE THE SAME LEVELS OF INCENTIVE AS FILM PRODUCTION

The Motion Picture Association of America has for a number of years reported declining theatrical attendance in North America, while we see enormous growth in streaming media with OTT operators like Netflix and Amazon. Screen consumers are clearly platform neutral; with the COVID-19 shutdowns and need for physical distancing, the trend to streaming will likely accelerate.

With these effects, and the emerging streaming providers, RSP believes that our incentive policies should be delivery agnostic, with as similar as possible incentives available to all forms of content consumption.

#### SUMMARY

Simply put, incentives that promote filming in Australia are important in that they:

1. Bring valuable (larger scale) revenue into Australian PDV businesses and promote consistency of opportunity for Australian screen businesses.
2. Promote relationships with the international filmmakers who bring further business to Australian PDV houses when they film elsewhere in the world.
3. Allow the research and development, skills and expertise that have been acquired by Australian screen businesses under these incentives to be provided to Australian filmmakers who lack the ability to fund that development individually.
4. Promote the development of local facilities, innovation and talent from access to project scales and complexities not normally seen in Australian domestic production.

The federal and state's government successful response to the COVID-19 pandemic places the Australian film industry in a unique position to capitalise on the projects that are returning to production. Our region - Australia and New Zealand – are being seen as one of the top destinations to work in and the incentives will assist in reducing the biases that we're seeing to the perceived distance issues.

In order to achieve this success, the Australian industry needs incentives that are consistent, predictable and globally competitive.

Yours faithfully



TONY CLARK, MANAGING DIRECTOR

