

SCREEN PRODUCERS ASSOCIATION OF AUSTRALIA

A Submission to the

Convergence Review

Department of Communications, Information Technology and the Arts

January 2000

The Screen Producers Association of Australia (SPAA) is the industry association of Australian independent film and television producers. The Association represents over 500 companies involved in the production and marketing of audio-visual programs, including feature film, all forms of television, commercials and corporate video. It is also the industry's peak employer association.

The Association aims to provide Australian producers with the means to have an effective say in government decisions and in industrial relations. It represents the interests of all producers on issues which affect the business of audio-visual production and aims to create and maintain the environment and conditions under which a vigorous independent production industry can thrive in Australia.

THE CHALLENGE OF CONVERGENCE

"What every Internet company here wants is an audience and a brand. These are precisely what film and TV companies have. Changing their stripes is the challenge."

Bruce Leak, President of Microsoft's WebTV Network at NATPE 2000

Convergence and globalisation are current buzz words being used to promote what is promised to be a new information age and a new information economy. One in which the new digital technology will promote universal access to information and lead to greater democratisation and increases in economic well being. While certainly that potential is present there is another side to this phenomenon in which an increasingly small number of multinational companies dominate access to content and distribution.

The acquisition of Time-Warner by AOL demonstrated how much convergence is about the increasing concentration of media ownership and the aggregation of access to audiences as it is about technological change. An 'old media' company like Time-Warner which still controlled access to vast libraries of content, effective distribution channels and substantial audiences was taken over by a 'new media' company lacking in all those assets. Is the result a truly new media company or simply a larger media conglomerate with a better exposure to the internet?

In this context it is often tempting to overestimate the impact of short term change and underestimate the longer term effects. As important as the impacts of convergence will be for commerce and communication the cultural and social impacts in many respects remain uncertain and hard to predict. Look back to the fifties and we see the predictions that television would be the death of cinema and radio. Not only do both of these media continue to exist, but in the case of the cinema it has witnessed a world wide boom in the last decade.

What is more, substantial parts of society and culture are yet to be affected by convergence. All this suggests that while existing regulatory and policy settings need to be examined and adapted, the approach needs to be evolutionary and not revolutionary.

Therefore we need to maintain the existing commitments and look at ways in which the regulatory tools available can continue to be used to promote the cultural objectives of the nation.

THE IMPORTANCE OF LOCAL CULTURE

As a nation Australia has placed a high value on the development of a distinctive Australian culture and identity allowing Australians to speak confidently to themselves and to the world. Successive Australian governments have introduced policies and programs and allocated resources designed to support and enhance cultural development.

It is a continuous undertaking, particularly as Australia faces the challenges of globalisation in the world economy and the profound transformations occurring in the information era. Like many nations Australia seeks to benefit from the potential of new global networks in trade and commerce, at the same time as we strive to maintain those aspects of our culture that make us unique in the world.

Australia has established an important cultural industry based on a clear definition of Australian culture. In the face of increasing pressures of globalisation we cannot afford to have this culture undermined.

THE IMPORTANCE OF MEDIA POLICY IN SUPPORTING LOCAL CULTURE

“The audio visual industry is therefore not an industry like any other and does not simply produce goods to be sold on the market like other goods. It is in fact a cultural industry par excellence. It is a major influence on what citizens know, believe and feel and plays a crucial role in the transmission, development and even construction of cultural identities.”

European Commission - “Principles and guidelines for the Community’s audiovisual policy in the digital age”, December 1999

Media policy and support for the audio-visual industry is a central part of the cultural policy of any nation. Pivotal to this has been the place of television in media/cultural policy.

Television is the most popular form of entertainment and education enjoyed by Australians and is the most influential means of communication. Its significance in the lives of Australians is substantial. For most Australians, television is the primary medium of cultural expression and understanding. In Australia, as in the rest of the world, the number of television services is expanding and reaching an ever increasing number of viewers.

Because of its pervasive nature and its potential to influence behaviour and opinion television continues to be a highly regulated medium. The objectives of that regulation have been to promote the greatest public benefit from the use of a scarce public resource. In deciding on the means by which Australia would introduce digital television the Government most recently reaffirmed many of those objectives and the central place of television in the lives of its citizens.

Australia developed a strong privately owned and advertiser financed commercial broadcasting sector alongside a publicly funded and publicly owned national broadcaster. It was modelled upon the structure that had already developed for radio in this country and was the main feature of the Australian broadcasting system until the early nineties, when the Broadcasting Services Act was introduced.

The commercial television broadcasters were developed as a regulated oligopoly of three national networks. In return for protection from competition and the profits from the oligopoly, the networks returned a portion of their income in licence fees and were required to meet cultural and industry development obligations.

This system has also been subject to strong government supervision in pursuit of the public policy goals for broadcasting. In broad terms these have been to ensure that broadcasting remained under the ownership and control of Australians, that audiences were provided with a diverse range of quality programs, that there was balance and fairness in the presentation of news, current affairs and political speech, that community standards of taste and decency were met and that Australian identity and cultural integrity was preserved and enhanced.

The original impulse for regulation of Australian content was a reaction against the early domination of Australian television by the cultural products of other nations. This came about because the nature of the trade in television programs made it possible for foreign programs to be purchased cheaply. The regulatory answer acknowledges the tension between the ideal of complete free trade and the creation of a strong and vibrant culture.

The effect of strong Australian content regulation cannot be overestimated. It not only provided the opportunities for production, the development of skills and the support of infrastructure, but created a growing and increasingly strong domestic television market.

The existence of strong broadcasters committed to the production of Australian content not only served to underpin the direct industry support initiatives by the government, but helped to create a culture of popular Australian television integral to the domestic market and which has produced programs that have proved to be attractive internationally.

In embracing the opportunities provided by convergence we must not lose sight of what has been achieved by the appropriate application of regulatory and policy tools such as these.

In this context it is worth noting that in its most recent review of audio-visual policy the European Commission has reaffirmed the importance of cultural and social objectives in dealing with the impact of convergence. It advocates regulation and support according to the nature and content of services, rather than their method of delivery. Regulatory change is to be adaptive and evolutionary rather than revolutionary.

THE SCREEN PRODUCTION SECTOR

The screen production sector of the economy is a motor for the creation of jobs and national wealth as we move into the information age. Copyright is the currency of the information age and the business of the audiovisual sector is based on the trade in copyright. At the very heart of job creation in the screen production is the creation of content.

Australia has one of the world's most efficient screen production industries. It is a cultural industry with both a national and an international focus. It plays an important part in the life of the nation, but also projects a powerful image of Australia to the world. Its strength and its contribution to the wealth of the nation lies in the ownership and control of copyrights created by Australians.

According to the Australian Bureau of Statistics¹ at the end of June 1997 there were 2,003 businesses in Australia involved in film and video production. The vast majority of these are small to medium sized businesses that have traditionally been the engines of employment growth. These businesses employed 9,438 people and generated income of \$1,128 billion. These results represented a substantial increase on the level of activity in the industry over the last decade which was assisted by the effective intervention of government to support industry development.

Federal and State governments have in place a sophisticated package of measures designed to foster the growth of the industry and deliver economic and cultural benefits for Australia. These measures include investment in development and production, assistance for training and infrastructure development and measures designed to create a strong domestic and international audience for production. These carefully targeted measures are aimed at encouraging the production, distribution, exhibition and export of Australian audiovisual products and services. They are essential to health of the Australia's screen production industry and culture.

Despite this Australia remains a substantial net importer of audiovisual products and services, although export performance has improved significantly in recent years. The main contributor to the growth in exports and imports has been television programs. Since 1988 the value of television programming exported has risen from \$48 million in that year to \$91 million in 1996. In the same period imports of television programs grew from \$239 million to \$302 million.

Australia faces the challenge of ensuring that the screen production industry maximises its potential for growth and competitive strength, at the same time as it ensures that convergence and globalisation do not simply result in new opportunities cultural and economic dominance by multinational corporations or other nations.

In December 1999 SPAA made a submission to the Minister for the Arts on the current state of the screen production industry in Australia and internationally. This provides a useful background to some of the challenges being faced by screen production in a globalised world. A copy of that submission is attached.

Again looking to the example of Europe it is worth noting the EC proposes to spend significant financial resources in the next five years under its MEDIA Plus plan on the very areas in which both Australia and Europe are weakest in preparing to take advantage of the opportunities for growth. These are the development and marketing of audio-visual content, supplemented by the training of media professionals in the audio-visual industry. There are some useful lessons here for Australia in how government and industry can cooperate to strengthen Australia's response to change.

¹ The following figures are taken from the Australian Bureau of Statistics publication *Film and Video Production and Distribution Australia 1996-97* 23 November 1998

ATTACHMENT

SCREEN PRODUCERS ASSOCIATION OF AUSTRALIA

**SUBMISSION TO THE MINISTER FOR THE ARTS
ON THE CURRENT STATE OF THE
SCREEN PRODUCTION INDUSTRY**

DECEMBER 1999

1. Why is this creative cultural industry so important?

"Stories and images are among the principal means by which human society has always transmitted its values and beliefs, from generation to generation and community to community. Movies, along with all the other activities driven by stories and the images and characters that flow from them, are now at the very heart of the way we run our economies and live our lives.

If we fail to use them responsibly and creatively, if we treat them simply as so many consumer industries rather than as complex cultural phenomena, then we are likely to damage irreversibly the health and vitality of our own society." - David Puttnam

The culture of a nation is "the whole complex of distinctive spiritual, material, intellectual and emotional features that characterise a society or social group" (*UNESCO World Conference on Cultural Policies, Mexico 1982*). It is both the representation of its identity and character and the making of those representations by the people of the nation.

Consequently the culture of a nation cannot be made elsewhere and must be firmly rooted in the land and people that comprise the nation. Since Federation Australia has proclaimed its independence in forming its own political *and* cultural identity. Unless the people of the nation participate in the creation of cultural products then the nation does not own its culture.

As a nation Australia has placed a high value on the development of a distinctive Australian culture and identity allowing Australians to speak confidently to themselves and to the world. Successive Australian governments have introduced policies and programs and allocated resources designed to support and enhance cultural development.

It is a continuous undertaking, particularly as Australia faces the challenges of globalisation in the world economy and the profound transformations occurring in the information era. Like many nations Australia seeks to benefit from the potential of new global networks in trade and commerce, at the same time as we strive to maintain those aspects of our culture that make us unique in the world.

The broader economic benefits of the screen production industry include:

- increasing *employment* in the film, television and other related industries;
- increasing *demand for Australian goods through international exposure* for Australia;
- increasing awareness of Australian creative talent and abilities;
- increasing *foreign investment* in Australia;
- increasing exports of Australian products;

- increasing tourism expenditure; and
- increasing Australia's skills base.

2. The Global Media Market

The market context in which the Australian film and television production industry operates is already heavily global.

The idea that the whole world is ultimately the market place is not itself new, just as competition for new markets around the world is not new.

The term globalisation is currently being used to define the new equation in which technology unlocks the potential of reaching mass audiences on a scale that can be most effectively exploited by multinational companies or joint venturers. Eventually, these companies dominate the means of production and distribution to the point where local output is either co-opted or forced out of business. This threatens Australian local content.

So, a process that began earlier this century with cinema distributors vertically integrating their operations down the "value chain" to form studios has now reached the point where those same studios are themselves integrated inside media conglomerates. They exploit the potential of their intellectual capital across the full spectrum of consumer outlets, from books to web based channels via everything in between.

The seven major Hollywood studios have expanded from their domestic market to dominate international markets as well. They now produce over 80% of feature films and 70% of fiction television world wide (Martin Dale, *The Movie Game*, 1997). They each belong to multi-national conglomerates which offer enormous advantages in cross-promoting and cross selling product.

In its recent submission to the Productivity Commission the Seven Network made the following observations about the international and domestic trend towards the convergence of previously separate markets:

- the industry is being transformed by technological convergence;
- we are seeing the emergence of global networks of media and communications conglomerates that are characterised by economies of scale, scope and density;
- these conglomerates are concentrated in the hands of a small number of controllers;
- these conglomerates operate across traditional boundaries of market definition;
- there is a growing trend for media and communications companies to vertically integrate backwards into the provision of content and an increasing concentration of ownership of content rights;
- the small number of conglomerates are interacting with each other in an increasing number of areas of operation, aligning their interests by the creation of networks of interest;
- although many acquisitions of rights and interests in the marketplace are not in themselves large, we are witnessing a creep towards the creation of dominant

networks of companies whose interests reach across all segments of the multimedia/communications market.

These trends are creating a newly converged multi-media and communications market in which the main players are involved in content creation, cinemas, advertising, the provision of online services, internet and e-commerce, publishing, telecommunications and broadcasting.

Table 1

THE BIG 7	REVENUES	COMPANIES
Time Warner	\$26.8 Billion Dollars	Warner Brothers, Time Inc, CNN, Home Box Office, New Line, Turner Entertainment, Warner Music Group (Atlantic, Elektra, Warner Bros), Warner Books, Little, Brown, theme parks, retailing, product licensing
Walt Disney	\$22.5 Billion Dollars	Disney, Buena Vista (International, Music, Internet, Sales), Touchstone, Miramax, Capital/Cities/ABC TV network, Go Network, Mammoth Records, Hollywood Records, Hollywood Pictures, theme parks, resorts, sports teams, retailing, product licensing
Sony	\$15.9* Billion Dollars *Sony Corp of America	Sony, Columbia Tri-Star (Motion Pictures, Television, Home Video), Columbia Records, Epic Records, Sony Disc Manufacturing, Sony Computer Entertainment, Sony Life Insurance, electronics, games
Seagram	\$15.4 Billion Dollars	Universal (Studios, Television, Pictures), Working Title Films, PolyGram, universal Music (Decca, Deutsche Grammophon, MCA Records, theme parks, retailing, product licensing, internet
Bertelmann	\$14.3 Billion Dollars	Random House, Doubleday, BMG, BCA, RTL (Television and Radio), RCA Records, AOL Compuserve Europe, UFA Film & Television Production, CLT-UFA
Viacom	\$13.2* Billion Dollars (*not incl. CBS)	Paramount (Pictures, Parks, Television), Nickelodeon, CBS (TV network, cable), Spelling Television, UIP, Viacom, Showtime, UPN, MTV, Blockbuster, Simon & Schuster
News Corp	\$12.9 Billion Dollars	Fox Broadcasting, Fox Studios, Fox Television, Fox 2000, Fox Searchlight, Fox Music, Foxtel, Twentieth Century Fox, BSkyB, HarperCollins Publishers, News Interactive, Festival Records, Mushroom Records, newspapers, magazines, airline

(From AFC/FFC: Report on the film and television production industry, 1999)

These vertically-integrated companies can promote their product through their film studios, television networks, cable/satellite/pay tv, record companies, magazines, newspapers, internet sites, radio, book publishers - even in-flight entertainment on their airlines.

Each month the market becomes more, not less, concentrated. Rather than promoting an open global market there is a growing trend towards vertical integration and market concentration rather than greater diversity.

It is true that technological developments have lead to the increased application of computing to telecommunications and to broadcasting, bringing about increases in bandwidth and other advantages of digitisation. This has the potential to increase the number of delivery channels and in recent years has increased the number of gateways available to consumers.

Yet the number of gateways has not increased to the extent that it is impossible to gain some form of monopoly control over the gateways. Technology also brings with it new means of restricting access through such things as encryption systems and proprietary software. As Frances Cairncross has pointed out there are three ways in which

companies can control gateways - by owning the hardware of communications (eg Telstra), by owning the dominant software (eg Microsoft) or by developing or buying the “must have” content (eg news services, movie libraries and sporting rights).

A case in point is the introduction of subscription television to Australia. In 1992 the then Government proposed satellite broadcasting to be the primary means of delivering subscription television and sought to ensure by legislative means that this be the case. Cross media rules were introduced to apply to the initial satellite licences issued to “provide for the introduction of a new and independent media player via that licence and to prevent the common carriers of services becoming vertically integrated in, and potentially dominating, services and their delivery”. However, similar cross media rules were not introduced to cover subscription services delivered by cable or by MDS. As a result we now have extensive cross media ownership of subscription television services by established broadcasting, newspaper and telecommunications interests along with vertical integration of both service and delivery systems. It remains as difficult as ever for a new and independent media player to gain access to this market.

In this environment it is not only difficult for smaller firms to compete but the barriers to entry continue to grow larger and larger. It is creating a situation where it is difficult for any one country to act alone to promote free trade or to regulate the market in the public interest. As a result the unilateral removal of all regulations will not necessarily increase domestic competition; instead it may lead to a greater domination.

3. The screen production industry in Australia

“Are we in danger of becoming an industry for hire, artisans working to international market place demands rather than originating and creating new content and formats?” Australian producer

“The activity of overseas companies here, either directly through ownership or indirectly through joint ventures is only happening because Australia is the only English language market viable for overseas companies to work in - our industry expertise is available at a price that works for them”. Australian producer

The screen production industry in Australia has grown from an almost zero base in the last thirty years. Although Australia was a pioneer of the cinema at the start of the century, by the mid sixties the state of screen production was at a low ebb. Regeneration of the industry began in the early seventies.

Since that time the growth has been phenomenal but the industry faces a number of challenges if it is to continue to grow and remain competitive.

The screen production industry got to this point through:

- a) The establishment of an infrastructure to support creativity. Crucial to this was:
 - Broadcasting and the role of local content rules.
 - Television commercials production.
 - Independent filmmaking and a commitment to screen culture.
 - Training and professional development.

b) The partnership of government and private sector investment in content creation through mechanisms such as the AFC, FFC and investment incentives.

SPAA recently surveyed a selection of 16 senior film and television production companies to canvas their insights into the industry and their ideas for the future. We have combined their insights and quotes with the hard data presented in this report.

There are a number of levels to this industry -

- Core sector - copyright creation and production
- Distribution sector - exploitation and distribution
- Peripheral - Related goods and services such as production services/equipment, post production and visual effects.

Australia is strongest in the core sector of production and the peripheral service sector and weakest in distribution sector, where we are more dependent on international players.

In the core sector there is a need to distinguish between:

- a) Domestically based and originated creation and production;
- b) Australian driven co-production - treaty and non-treaty; and
- c) Offshore production using Australian services and facilities.

The industry understands the need to make films and programs that attract and keep audiences. This is challenging at any time but is becoming more so in a globalised market against multinational competition.

Australia is a small domestic market and the domestically based firms face degrees of competitive disadvantage. Many producers are poorly capitalised, particularly to fund development. Despite the talent and creativity present in Australia there is a growing crisis of confidence in the industry. Many smaller independent producers are finding it increasingly hard to survive in what they see as a contracting or static domestic market. The fears that have been voiced for some time found tangible support in the report on the film and television production industry presented to the Government in November.

There is growing concern that the increasing level of offshore activity and the increasing presence of international companies in the Australian market is giving a false picture of a healthy domestic industry. As important as the presence of these players is to economic activity it is fundamental fact that a strong offshore industry will not exist without a strong domestic industry.

The Australian industry has the potential to exploit the opportunities that will arise in the developing global economy. The raw materials of screen production are present in a talented and highly educated population of content creators. The industry employs intellectual capital, which will be the currency of the information age. There is an established and growing infrastructure, which is not based on outmoded processes of industrial production and which is organised efficiently.

Australia is on the leading edge in the development of digital technology, and should be able to take full advantage of the digital revolution which will eventually change the way we receive and consume entertainment and information.

4. Challenges facing each sector

4.1 Feature Film

The international market has become more competitive in recent years. There has been world wide growth in box office and the number of screens, however that growth has been uneven. Established cinema markets are booming, but emerging markets are flat. The United States domestic market still dominates, taking 41% of the estimated world wide revenue of \$US17 billion. The growth in the domestic market and the continuing US domination of the world markets has fuelled inflationary pressures on Hollywood pictures and helped underwrite the expansion of the US independent production sector.

Since 1985 the average negative cost of a studio picture in the US has grown from \$US17 million to \$US53 million, while the average cost of releasing these pictures has grown from \$US6 million to \$US 25 million. The US domestic box office has not grown at the same rate as these costs and there is increasing reliance on foreign revenues and income from ancillary markets to maintain the growth.

However, the US retains a number of competitive advantages. It has a large domestic market that is linguistically and culturally unified. It has efficient production and distribution systems and the ability to produce across the whole spectrum from high budget/high concept films to low cost volume production. The major players have extensive libraries of copyright which they can exploit across many delivery systems. It is also able to renew itself constantly through access to fresh sources of investment and capital from revenues and bank finance.

Outside of the studio system the independent production sector in the US has grown enormously over the decade and many of these films are also finding their way into the international market.

At the same time there has been an increase in production in other markets. In the ten years to 1998 the output of feature films in the EU increased by 25%. In the UK the increase was 118%. As a consequence the independent feature niche which Australia occupies is now crowded with UK/US/Euro independent films.

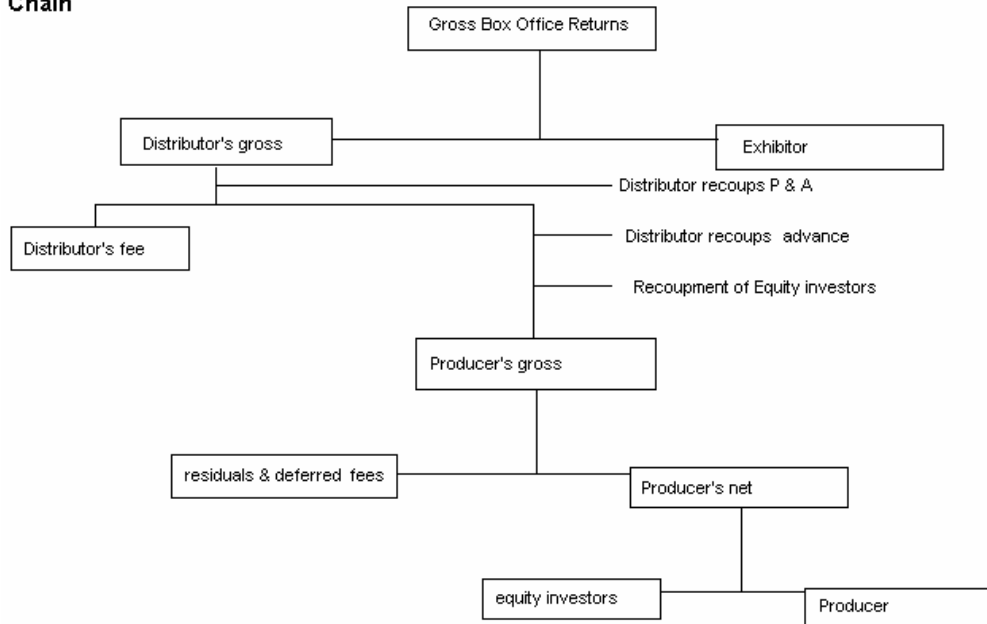
In particular Australia faces increasing competition from the cashed up production and distribution based UK lottery franchise companies and mini-major US distributors with access to higher budget films and marquee casting.

Domestic sales agents are struggling to make Distribution Guarantee commitments in a tougher market place while the North American and UK companies are holding back, showing interest but offering few actual deals and seeming to be more interested in spotting talent after Australia had nurtured it.

It is important to remember that the producer does not directly share in the box office receipts of their films. The exhibitor, unlike any other retail sector, takes a substantial share of the box office, at least 50% and often higher in Australia. The producer then shares in returns to the distributor after they deduct their costs and any advance made to the producer to ensure a flow of finance for future productions.

The greater profit that can be made by a distributor, then the larger the amount of money available to be reinvested in feature film production. The flow of box office receipts can be seen at Figure 1

FIGURE 1
Feature Film Distribution Chain



In the Australian domestic exhibition market there has been a consistent growth in cinema admissions and box office since the late eighties, coupled with dramatic growth in the number of screens. The number of screens has increased at a faster rate than the increase in box office so that the average number of admissions per screen has not grown during the decade.

Most of the growth in screens has come from suburban multiplexes and been driven by the three majors, Greater Union, Hoyts and Village Roadshow. The consequence of this change in infrastructure has been a change in the release patterns of films making it more difficult to access screens for Australian films for anything but wide release.

This has restricted the options for Australian feature films to find and develop an audience and put more pressure on the smaller independent distributors who have handled most Australian feature films. Some of the independent distributors have had to scale back their activity or form strategic alliances with larger international distributors.

For many years development has been underfunded in Australia. The US spends 10% of its production costs on development, whereas Australia spends less than 2%. At a recent seminar hosted by SPAA the chief financial officer for Paramount Pictures stated

that his company alone wrote off \$US 100 million annually on failed development projects.

In Australia development funding comes predominantly from the government agencies or from what producers can manage to scrape together from fees and revenues. Distributors and sales agents provide some funding but it is not in the same order as that provided by international comparison. This underfunding creates pressure on the development and means that not only can it be poorly executed, but projects often go into production before they are ready.

4.2 Television

The recent AFC/FFC Report to the Minister for the Arts highlights some of the challenges facing the independent production sector in creating programs that meet the cultural objectives of broadcasting.

Despite an overall increase in television drama production in Australia there has been a decline in the number and value of Australian originated drama production. In 1998/99 the total value of this production dropped by \$60 million from the previous year. In real terms the 1998/99 figure was 13% below the average per annum over the four years from 1995/96.

The prospect is that this level of Australian production will not increase in the current financial year. The consequence is that Australian audiences will start to see less drama on commercial television. This at a time when new Australian drama represents only 8% of prime time transmission across all free to air channels.

It has become harder for independent producers to finance domestic drama. At the 1999 SPAA Conference, sessions on "Funding the Gap" which presented policy papers and panel discussions on the difficulties of financing Australian television were the highest attended (over 450 people) - demonstrating the strong sense of urgency and concern in the industry. SPAA has subsequently had three specific television forums for its members, and again the response has been overwhelming.

Following is a summary of the issues as identified by SPAA and its members:

- Australian television licence fees, in real terms are declining. In some cases licence fees, in dollar terms, are also declining. Eight years ago, the 1991 Australian Broadcasting Tribunal's Inquiry into Australian Content on Commercial Television wrote about accepted industry average purchase prices per hour for the various drama program formats. In October 1999 the FACTS Submission to the Productivity Commission's Inquiry into Broadcasting reported that average licence fees were virtually the same or even lower.

Program type	1991 Averages	1999 Averages
Serial	\$110,000	\$40,000- \$80,000
Series	\$220,000	\$150,000 - \$200,000
Telemovie/Miniseries:	\$350,000	\$250,000 - \$350,000

- Australian licence fees are a smaller proportion of the cost of production than in most comparable countries. A sample of 26 Australian drama productions in 1998/99 revealed that licence fees as proportion of the total budget were approximately:

Children's:	15%
Telemovie/Miniseries:	15-25%
Series on tape:	80-100%
Series on Film	60-70%
Serial:	35%

- The Film Licenced Investment Companies (FLICs) have not been a success. They are unable to provide a new source of investment therefore leaving a further gap in production funding.
- The Film Finance Corporation is unable to fund, due to limited resources and increasing demands, anything other than telemovies and mini series.
- Television worldwide is becoming more local, leaving less opportunities for the sale of Australian shows overseas. There has been a softening for adult television drama internationally triggered by a rise in local production in European markets. In those markets there is a preference to buy completed television programs making it harder for Australian producers to find deficit finance.
- The large vertically-integrated media companies are fighting the move to local production by setting up local subsidiaries to produce local content and forming alliances with domestic broadcasters.
- The US studios, via their output deals, continue to limit opportunities for Australian drama in foreign broadcaster's schedules. Under US antitrust law they are exempt from any action for carrying on activities offshore that would be illegal in the domestic market. At the same time all foreign producers "dump" their domestic production in offshore markets. For television there is no equivalent because the WTO endorsed anti-dumping regime does not apply to intellectual property.
- In the Australian networks' schedules locally produced drama can be market competitive for audience, but cannot be price competitive against imported programs.
- More sophisticated Terms of Trade are available in other markets to enable concurrent exploitation of drama in free-to-air, pay and digital windows. For example, in the United Kingdom.
- Australian producers/production companies have sold out to large offshore companies, making it more difficult for the independent producers/independent production companies to compete.
- Producers witness the leakage of Australian content quota to foreign vertically integrated companies. Local network joint venture deals with companies such as

Hallmark, Fox, New World, and now Granada are affecting prices and timeslots available and putting pressure on the Australian Content Standard.

This difficult trading situation is against a background where network profitability continues to rise. The Productivity Commission in its analysis of the financial performance has shown that the return on asset performance of the commercial networks has consistently exceeded the long term bond rate for the last decade and that there is prima facie evidence of above normal profits.

Table 2
License adjusted rates of return of commercial free to air television stations (excluding television license values and fees) and the 10 year bond rate, 1986-87 to 1997-98. (Page 42.)

Year	Major Capital Cities	All Regional	10 Year Bond Rate
	%	%	%
1986-87	8.6	28.0	12.8
1987-88	14.7	31.6	12.0
1988-89	8.4	33.2	13.5
1989-90	9.3	37.8	13.4
1990-91	2.1	14.5	11.2
1991-92	27.5	12.1	8.9
1992-93	24.6	12.4	7.4
1993-94	30.8	14.3	9.7
1994-95	31.0	15.3	9.2
1995-96	34.2	16.1	8.9
1996-97	30.0	14.5	7.1
1997-98	20.2	10.2	5.6

The Productivity Commission is also suggesting that the spectrum rental paid by the networks through their licence fees is undervalued for this reason and when compared with what the market is prepared to pay for spectrum for other uses.

At the same time the independent producer is concerned that the dominant market power of the networks is being used to force terms of trade that are excessive.

Against the background of globalisation and concentration of media, Australian quota is essential to allow citizens to see their culture in a diverse range of programming aimed at the very diverse Australian audiences.

The networks claim that because their Australian programs rate highly and draw substantial advertising revenue and critical and popular acclaim for the networks they will keep buying them. That may be true up to a point. But the contraction in volume purchased and the decrease in license fees paid appears to indicate a diminishing level of commitment.

The essential economic criteria for the networks remains returning shareholder value by cost reduction and increases in revenue.

4.3 Documentaries

In documentaries, domestically available finance is much tighter as a result of reductions or realignments of funds within the FFC, AFC, and ABC. As result, lower budget documentaries are being made in a more competitive overseas market. Market demand however, is for higher budget documentaries and series, not one-offs. End users are also often requiring an equity position in productions while paying the same license fee.

5. Critical Mass

Without a level of economic activity across all sectors of production, the ability of the industry to produce those films and television programs with the highest cultural values is reduced. The existence of the transmission quota and of a quota for commercials therefore acts as a kind of cross-subsidisation for this cultural activity. In order to have Australian stories on screen there must be an industry to physically produce the programs.

The change in the advertising quota from the 100% quota to 80% in 1992 has already had a serious effect on the production industry, and in particular facilities and post-production. The abolition of quota as advocated in the Draft Report of the Productivity Commission would be devastating and have serious ramifications for the entire production industry.

The film and television industry features a highly mobile and highly skilled workforce that generally works on a freelance basis. Editors, actors, producers, writers, directors, sound, art department, composers, cinematographers - all work on a project to project basis throughout the year.

These projects encompass film, television, advertising and corporate and music video, and there is constant and consistent crossover from project to project.

If there is not a strong industry across **all** formats of screen production, the ability to maintain a skilled workforce dissipates rapidly. As one producer stated "To have cream, you need milk".

A recent survey of members of the Australian Screen Editors Guild showed the downturn in screen production is already impacting on employment. Nine percent of those surveyed were considering leaving the industry due to the extreme difficulty in attaining work over the last year, even though they had previously worked on high profile productions, and were well qualified to do their jobs. There is no room for new people to enter the industry.

Furthermore,

55% of Editors and assistants surveyed had less work this year than last year.

9% of Editors and assistants surveyed had no work at all in the last year.

84% of Editors surveyed expect the amount of work to decrease again in the next year.

39% of Editors work had shifted "down" from what they had done the previous year, eg from features to documentary, from television series to corporate production.

9% of Editors were considering, or had made the decision, to leave the industry.

SPAA surveyed a representative panel of facilities providers to the Australian film and television industry regarding their views on the current state and future of the industry. Participants included duplication and other post production, special effects, editing and mixing services, film/video/equipment suppliers, legal, financial and insurance providers, casting agencies, stock footage suppliers, etc.

Respondents were asked to indicate the percentage of their business devoted to particular types of production. The results do give an accurate idea of the scope of the industry, and the importance of television commercials, followed by Australian feature film and television drama and documentary as the overwhelmingly main income sources for the industry - not offshore production, which is only approximately 15% of clients.

Table 3

Type of Project	1998	1999	2000+
Feature Film (offshore)	6%	7%	8%
Feature Film (Australian)	21%	18%	17%
Television Drama (offshore)	3%	8%	8%
Television drama (Australian)	13%	12%	16%
Documentary	12%	13%	12%
Television Commercials	36%	33%	32%
Other (specify) (corporate, multi-media, shorts, broadcast design, home video)	9%	9%	8%

Seventy percent of Australian facilities providers expect their business to either decrease or remain the same in 2000.

The only area widely anticipated to grow in 2000 was offshore television drama (73% of respondents believed it would increase). However, as this is currently only 8% of facilities' work, it will not have a large impact on most companies' bottom line.

Television commercials, documentary, and Australian feature film were estimated by over a third of the respondents to show lower levels of activity in the future. As these represent two-thirds of facilities' slate of work, this is of some concern.

The post-production industry in particular is vulnerable to any scaling back of the creative elements test. It is already disadvantaged by the off-shore industry, which while providing some employment to production cast and crew, often takes post production back to the home country. In addition to which the companies also have to invest in digital technology to meet the advent of digital television.

6. Government funding

The current Government came to power with a stated commitment to the screen production industry. However, since then the industry has dealt with uncertainty about its

future due to the reviews that have taken place and the overall reduction in the level of funding to the full range of industry support programs.

Federal Government funding, in both real and absolute terms is declining as demonstrated by the following table.

Year	AFC	FFC	Film Aust.	ACTF	CTPF	SBSi	TOTAL
88-89	15.5	70	15.9	0.6	-	-	102
89-90	16.1	54.8	5.9	0.6	-	-	77.4
95-96	20.5	50.0	6.6	2.3	20.0	4.3	103.7
97-98	15.5	48.0	6.5	2.3	14.2	4.2	90.7
99-00	16.5	48.0	6.7	2.3	----	4.6	78.1

Source: AFC: *Get the Picture*, p.20 (1998)

In addition the funding base of the ABC has declined with particular effect on the funds available for drama production:

1995/96	84 hours
1997/98	59 hours

At the same time measures designed to encourage Australian private investment have been hamstrung or delayed when the international financing landscape is looking less certain. The FLIC scheme has not yet had any effect on the level of private investment, the ATO enforcement measures have affected the confidence of private investors and there were long delays in the enforcement of the Pay TV expenditure requirement.

By comparison other English speaking markets are witnessing an increase in support from their governments for production and development. The UK government has used monies earned from the national lotteries in a range of cultural industry support activities, including the establishment of the so called lottery franchises that have increased the output of UK film and are helping to establish distribution infrastructure.

The UK government is also examining ways in which it can increase the export performance of UK television programming.

The Canadian government provides an extensive range of measures at the federal and provincial level to underwrite both film and television production. For example:

- Telefilm Canada's Feature Film Fund and Feature Film Distribution Fund provided \$22 million and \$10.3 million respectively to support the film industry in 1996-97. Telefilm also provides a Loan Guarantee Program and a Production Revenue Sharing Program that support television and film production.
- The Canadian Television Fund (CTF) provides \$200 million (through the License Fee Program and the Equity Investment Program, which is made up of \$50 million annually from the Telefilm Canada budget, \$50 million annually from the cable

television industry, and a \$100 million annual contribution from the Department of Canadian Heritage) to encourage a strong Canadian presence in the Canadian broadcasting system by supporting the production and distribution of Canadian drama, children's programming, and documentary, performing arts and variety shows.

- The Canadian Film or Video Production Tax Credit program is designed to encourage a more stable financing environment and longer-term corporate development for production companies. Provincial governments also offer complimentary tax credit programs
- The Cultural Industries Development Fund provides loans for the major cultural industries. In 1997-98, it disbursed \$9 million in loans.

France's Centre National de la Cinématographie uses special cinema taxes to support film production. Any producer of fiction, animation, cultural shows or documentaries whose programs have been broadcast by French Television automatically receives a grant from the country's Film and Television Industry Support Fund.

6. Summary

In summary the underlying issues are:

- The preservation or erosion of Australian content on television.
- The real reductions of government financing support.
- The resistance of the local networks to raising license fees and harsh terms of trade at a time of sustained profitability.
- The uncertainty regarding the capacity of FLICs to raise funds.
- Globalisation issues generally as they affect Australian content and the capacity of independent Australian production companies to survive and compete in world markets.
- The effect of hybrid style co-productions on content quotas and the need for clarity in ABA definitions.
- The lack of overall development funding including script development in high-risk areas.
- The lack of real support for the local industry on the part of distributors and exhibitors.
- The effect on Australian content posed by buyouts of Australian companies and or joint venture deals with networks including copyright and revenue transfer to overseas control.
- The need for government to team with the production industry, distributors and exhibitors to place Australian film and television in a place of pride within Australia's cultural heritage and cultural future.

7. The Future

Screen production needs to be seen as part of the wider copyright industry that is based on the creation and exploitation of content. The big players who are reaping the benefits of growth in this industry have vertically integrated and diversified across all forms of copyright creation.

Australia is a marginal player in this game. Some Australian companies see this as a threat, others see it as an opportunity to become part of a multinational organisation that has greater access to foreign markets.

Amongst all this economic integration, small countries such as Australia strive to promote their cultural identity. Technological change and globalization seem daunting, but reinforce the need for strong cultural policies to ensure that the skill

and expertise we have developed is used to tell our own stories, allowing us to maintain our national identity and cultural diversity in a rapidly changing world.

7.1 Strategic Vision

The vision we have is of an industry growing in output and earnings from a stable domestic base of talent and investment. An industry that is oriented to world markets, making screen content that is culturally authentic to Australia. An industry serving the needs and aspirations of the Australian community, while making content an increasing number of people around the world will want to see and buy.

Australia can achieve this vision by:

- Investing in the creation of Australian screen content.
- Developing infrastructure that supports creation.
- Developing and exploiting effective systems of marketing and distribution.
- Increasing the effective level of return on Australian equity in screen content.

Production and creative employment is not the issue, distribution (finance) is the key. We need effective distribution networks to connect with content production.

7.2 Regulatory

We must resist the temptation to think that enormous change will come at once, even if the pace of change is increasing. This is not an argument to dismantle existing regulatory mechanisms. In a period of potentially disruptive change, given the current state of the industry we must have an approach to regulation that is evolutionary and not revolutionary.

Therefore we need to maintain the existing commitments to regulation and look at ways in which the regulatory tools available can continue to be used to promote cultural and economic objectives.

We must resist the recommendations of the Productivity Commission to dilute the regulation of Australian content and examine ways in which that regulation can be maintained and extended.

7.3 Direct government investment and incentives

The existing funding mechanisms could be refocussed to better encourage entrepreneurial activity by copyright creators. The cultural rationale for funding remains the cornerstone but more flexible mechanisms need to be explored. Project funding will remain important to produce diversity and innovation, but it could be supplemented by mechanisms that encourage the growth of Australian copyright creation businesses.

The Government should:

- Restore the funding base for development and production.
- Restore funding to the national broadcasters

- Ensure that producers are adequately funded to undertake the necessary tasks of development and marketing.
- Examine incentives for distributors and exhibitors to invest in the marketing and promotion of Australian films.
- Examine more effective export support strategies that improve the access of Australian product to the international market.