australia
new zealand
screen
association

Pre-Budget Submission: an opportunity to grow the Screen Sector’s contribution to Australia’s employment, economic contributions and exports.

28 January 2022

About us

1. ANZSA's members produce and distribute some of the highest quality creative content in the world. We work to advance policies that support diversity, creators, protect content and foster a thriving creative economy. Our members are also active participants in Australia's screen community. They represent a significant share of both the Australian and inbound screen production investment into Australia and play significant roles in the distribution of that content – in Australia but also in taking Australia's stories to global audiences.

2. ANZSA's members have had long-standing business ties to Australia, from establishing distribution companies as far back as 1926, to commissioning international feature films to be produced in Australia over the past twenty years, including *The Matrix* and its sequels, *Star Wars: Episode II – Attack of the Clones*, *Mission Impossible 2*, *Moulin Rouge*, *Charlotte's Web*, *Alien: Covenant*, *X-Men Origins: Wolverine*, *The Lego Movie*, *Thor: Ragnarok*, *Pirates of the Caribbean: Dead Men Tell No Tales*, *Peter Rabbit*, *Peter Rabbit 2, The Shallows, Aquama*n, *Godzilla vs Kong*, *Monster Problems*, Marvel's *Shang-Chi and the Legend of the Ten Rings* and the upcoming *Thor: Love and Thunder*. They are also increasingly involved in the production of high-end TV series in Australia with *Clickbait*, *Young Rock*, *Nine Perfect Strangers*, *The Wilds, Reef Break* and the upcoming *Shantaram* just some of the recent examples.[1] Both *Shantaram* and *Clickbait* have a distinctively Australian provenance as well. The former is based on an Australian novel, the latter was conceived and developed by Matchbox Pictures, an Australian production company.

3. All six Hollywood studio members have also participated in the Australian film market - either through partnering on direct production (Dr. George Miller's *Mad Max: Fury* Road and the upcoming *Mad Max: Furiosa,* Baz Luhrman's *Australia*, *The Great Gatsby*, and the upcoming as yet untitled Elvis movie, as well as the upcoming Chris Hemsworth film *Escape from Spiderhead*) or through the commissioning and acquisition of distribution rights in Australia and around the world of film and television shows (*Mr Inbetween*, *Stateless*, *Railway Man*, *Tracks*, *The Dressmaker*, *The Water Diviner*, *Ladies in Black*, *Storm Boy, Bluey, Glitch, The New Legends of* Monkey and the upcoming *The Legend of the Cross*, and *Six Spreadsheets*).

Summary of ANZSA's recommendations

- ***Combine the 16.5% Location Offset with the 13.5% Location Incentive program for a straightforward and certain Location Offset rate of 30% (overall budget neutral)***

- ***Create and fund a dedicated IP Crime unit within the Australian Federal Police (budget impact - $1 million per annum)***

Introduction

4. ANZSA welcome the opportunity to make this submission to Treasury to provide input for the Government's budget planning for FY 22/23 and beyond.

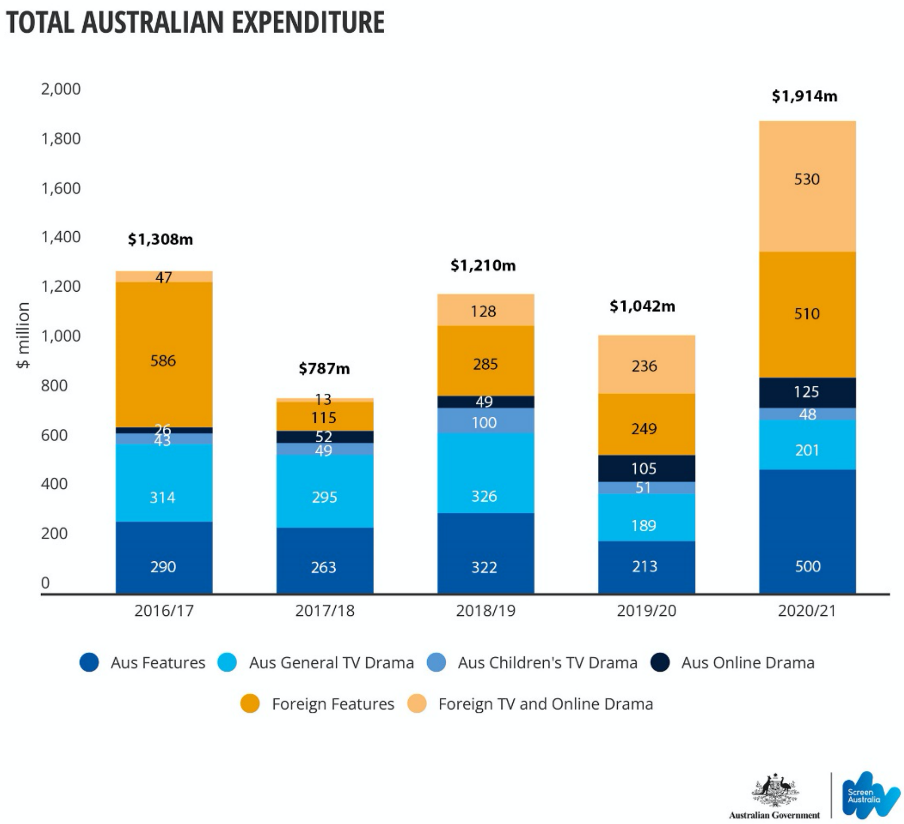
[1] In Senate estimates it was confirmed just $18m is left unallocated of the original $140m Location Incentive, which means $900m of foreign investment is committed. The two projects not directly aligned with our members are *Ranger's Apprentice* and *The Alchemyst*, produced by Dick Cook Studios.

5. We applaud the Morrison Government's decisive and progressive decisions[2] in recent years. We view these decisions following two distinct tracks:

   (a) Emergency Support required due to COVID-19 lockdowns, such as the development of the Temporary Interruption Fund, which underwrote COVID-19-interruption risk on film production sets and the additional $50 million in funding provided to Screen Australia and the Australian Children's Television Foundation over financial years 2021-22 and 2022-23, and

   (b) Structural Investments in the global competitiveness of the Australian screen sector, such as the additional $400 million allocation to the Location Incentive Program in July 2020, and the December 2021 changes to the Producer Offset, particularly the increase of the Producer Offset for non-theatrically released screen content from 20% to 30%.

6. As a result of these decisions, the Screen Industry did not just carry on in 2020-21 during the pandemic, it thrived, with Screen Australia's Drama Report showing a record $1.9 billion investment in Screen content.[3][4] This also included a record $874 million investment in Australian film and TV shows.



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[2] The Hon Paul Fletcher MP, Record year of funding: $530 million to support screen sector, 15 August 2021, < https://minister.infrastructure.gov.au/fletcher/media-release/record-year-funding-530-million-support-screen-sector>

[3] Screen Australia, Aussie Drama production reaches record-breaking $1.9 billion expenditure, 8 December 2021, <https://www.screenaustralia.gov.au/sa/media-centre/news/2021/12-08-aussie-drama-production-reaches-record>.

[4] Screen Australia, Screen Australia Drama Report: Production of feature films, TV and online drama in Australia in 2020/21, <https://www.screenaustralia.gov.au/fact-finders/reports-and-key-issues/reports-and-discussion-papers/drama-report>.

7. Some positive trends in these numbers have been underexposed, and ANZSA believes these trends demonstrate that the export opportunities for Australian content are growing steadily.[5]

   (a) Investment per title is increasing steadily. The average feature film produced in Australia has an Australian spend of $15.77 million, 59% above the five-year average. The average TV and online series spend is now $850,000 per hour, 13% above the five-year average. However, this data alone does not tell the full story. For SVOD-commissioned titles – including from ANZSA members - the average spend per hour is now $3.14 million.

   (b) Foreign financing represents an increasingly growing share of total budgets. With 47% of total feature budgets, foreign financing is the number one source for the financing of feature films. For TV and Online series, foreign financing now represents 35% of all funding, and on current trends will overtake Australian financing as the number one source of financing.[6]

8. Where Australia's producers once produced stories targeted at local audiences, financed almost entirely with local financing, Australia's screen professionals are now confident in their ability to create stories with global appeal, financed with global funding. In just a few years, we have seen stories greenlit at production budget levels well above the local one to two million per hour budget range. The series *Clickbait* for instance was developed by Tony Ayres Productions and Matchbox Pictures and was able to secure $36 million for its eight episodes,[7] and turn that investment into a global hit for Netflix where the show was the most watched show in the United States for 12 days, and - having achieved 1.46 billion minutes streamed in its first week - reached number one in more than 20 countries.[8]

9. Global buyers of screen content are increasingly confident to invest larger sums in Australian productions because Australian crews have been able to develop their skills on cutting-edge made-in-Australia inbound productions and have demonstrated they can create high quality content. Never was this opportunity greater than in 2021-22, with more than $1 billion invested in inbound productions in this period – most of it by ANZSA's members.

10. The impact of this direct feedback loop between Australian and made-in-Australia inbound shows was never better demonstrated than the successes of NBC Universal's Matchbox Pictures, one of the partners on *Clickbait*, which has provided production services on major inbound TV shows such as *Young Rock, La Brea* and *Joe Exotic*, and has since sold locally developed shows *Irreverent* to Peacock and Netflix, and *Things I Know To Be True* and *Class of '07* to Amazon Prime Video.

The Global Landscape

11. Australia's success did not materialise in a vacuum. Technological changes are making the distribution of content more efficient, and as a result, access to quality content is now more affordable for Australian consumers than ever before, whilst more of every consumer dollar can be re-invested in new screen content.

[5] ANZSA analysis of Screen Australia Drama Report.

[6] See Appendix 2 for detailed graph showing the trend line.

[7] Paul Fletcher MP, Netflix partners with Victorian creators to bring 'Clickbait' to Melbourne, 26 August 2019, <https://www.paulfletcher.com.au/media-releases/joint-media-release-netflix-partners-with-victorian-creators-to-bring-clickbait-to>

[8] Karl Quinn, Australian show Clickbait tops Netflix charts around the world, 5 October 2021, <https://www.smh.com.au/culture/tv-and-radio/australian-show-clickbait-tops-netflix-charts-around-the-world-20211005-p58xe2.html>

> **"You look at the investments [SVOD services] make, the value is extraordinary… you get about a billion dollars of original content for every dollar a month… I can't think of any other sector that offers this much value"** Scott Galloway, Adjunct Professor of Marketing at New York University Stern School of Business.[9]

12. And the internet does not just make distribution more efficient, it is also more effective. Historically, scale was needed to find audiences overseas, given the limitations of cinema screens and linear TV schedules. Stories from anywhere can now reach audiences everywhere. That means viewers not only can afford more quality content, but they can also easily and conveniently access more variety of content *that appeals to them*.

13. As a result of these changes, global consumption and therefore investment in screen content is growing. Leading screen consultancy Olsberg SPI has produced a series of reports[10] that show this trend:

    (a) In the US, the number of scripted original series has increased from 266 in 2011 to 532 in 2019.

    (b) Worldwide, the estimated number of feature films produced grew from 7,455 in 2014 to 8,204 in 2018.

    (c) Consequently, analysts estimate that production expenditure has risen from US$95 billion in 2013 to US$123 billion in 2018.

    (d) The main driver for this growth comes from streaming services, quality productions that embrace cultural diversity, which are welcoming localised content, to serve the diversity of subscribers across all regions of the world.

14. The economic and creative benefits of this screen content investment reach far and wide. Just 33.1% of total investment is screen production-specific, with the remainder going to a wide range of sectors including cultural sectors such as VFX & Interactive, Fashion, Music & Performing Arts.[11]

Global Best-in-Class – the United Kingdom Case study[12]

An ever-increasing contribution to the UK's economy

15. In 2019, the United Kingdom's screen sector contributed £13.48 billion in Gross Value Add to the economy from a total production expenditure of £5.1 billion. For perspective, that is approximately $8 billion, more than five times Australia's latest tally.

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[9] The Prof G Show with Scott Galloway, 4 March 2021, accessed via Apple Podcasts, <https://podcasts.apple.com/au/podcast/the-prof-g-show-with-scott-galloway/id1498802610?i=1000511547265>, key phrase 31:50.

[10] Olsberg SPI, The Global Production Deluge, 25 February 2020, < https://www.o-spi.co.uk/wp-content/uploads/2020/03/Global-Production-Production-Deluge-Evidence-and-Discussion-Paper-Final-2020-02-25.pdf> and Olsberg SPI, The Impact of Film and Television Production on Economic Recovery from COVID-19, 25 June 2020, < https://www.o-spi.com/projects/economic-impact-studies-research-and-evaluation-ly9lh>.

[11] For more information about this, see Olsberg SPI's 2017 'Creative Industries Ripple Effect' study, <https://www.o-spi.com/projects/creative-industries-ripple-effect>

[12] All data in this section is sourced from: Olsberg SPI & Nordicity, Screen Business: How screen sector tax reliefs power economic growth across the UK 2017-2019, December 2021, https://www.bfi.org.uk/industry-data-insights/reports/uk-screen-sector-economy, unless otherwise noted.

16. The United Kingdom was able to attract even more significant investment from foreign sources with 87.9% of feature film budgets and 76.8% of high-end television budgets (net of the UK's 25% tax relief) from foreign sources.

17. As a result of this inbound investment, the UK's screen sector value chain now delivers 156,000 full-time equivalent (FTE) jobs. With economic spill-over effects included, this number increases to 219,000 FTE jobs, up 20% from 2017. These jobs generate a higher GVA per FTE than the UK's economy as a whole.

18. Each £1 invested in tax relief invested in feature films delivered £8.30 in GVA, for high-end television, that was £6.33 – easily outstripping the contributions of animation (£4.53), Children's television (£3,20) and Video Games (£1.72). This higher additionality for feature films and high-end television is attributed to the following factors:

    (a) Sectors with higher inward investment will display greater rates of additionality.

    (b) Inbound screen tourism is highly additional to the UK economy, as it doesn't require further tax rebates. It is estimated that tourists spent £892.6 million in film-related tourism.

19. Between 2017 and 2019, an estimated £131.6 million was spent on building or expanding UK studios. That only tells a small part of the story, an analysis of infrastructure plans which had already been granted planning permission shows another £785.4 million of potential spend, dwarfing investment in infrastructure in Australia.

Supported by cohesive all-of-Government policy for the screen sector

20. The key driver for UK's success is its straightforward and predictable screen production tax relief structure; a 25% tax rebate is payable, irrespective of whether it's a film or TV show, or whether it's a UK or inbound production.[13] Given the economies of scale in the UK, this clearly delivers a competitive advantage in net production expenditure level.

21. It has also kept the level of government involvement to a minimum, opting to let market forces dictate investment levels and allocation across genres and projects. Although UK implemented an overall 30% European works library quote for VOD services, it chose not to impose direct investment obligations on SVOD and AVOD services, or indirect investment obligations via a levy.[14]

22. The United Kingdom Government did not just focus on supporting the production of screen content, it also was one of the first countries to develop effective copyright policy settings to prevent content theft, with the passage of Section 97A in the UK's Copyright Act in 1998,[15] which enables rightsholders to petition the courts to require service providers such as ISPs to disable access to infringing content. Similar legislation was passed in Australia in 2015 with S115A of the Copyright Act, albeit with only CSP's subject to it, which therefore required further enhancement in 2018, under which search engine service providers were added to the list of parties subject to the statute. The Morrison Government has committed to undertake further review these legislative settings.

23. The remedy above puts the onus on rightsholders to protect their valuable intellectual property, but the UK did not stop there. In 2013, it also created and funded a dedicated IP crime unit, the Police Intellectual Property Crime Unit (PIPCU), a department of the City of London Police.[16] Since its inception, it has investigated intellectual property crime worth more than £100 million and suspended

[13] British Film Institute, About UK creative industry tax reliefs, <https://www.bfi.org.uk/apply-british-certification-tax-relief/about-uk-creative-industry-tax-reliefs>

[14] Oliver & Ohlbaum Associates, Supporting local content investment: International Policy Approaches to VOD services, May 2021, <https://www.infrastructure.gov.au/sites/default/files/documents/mrgp-abc-attachment-b-oliver-and-ohlbaum.pdf>

[15] https://www.legislation.gov.uk/ukpga/1988/48/section/97A

[16] City of London Police, About PIPCU, <https://www.cityoflondon.police.uk/police-forces/city-of-london-police/areas/city-of-london/about-us/about-us/pipcu>

more than 30,000 websites selling counterfeit goods. These websites have also been linked to identity theft. PIPCU is funded by the UK Intellectual Property Office. The most recent public disclosure shows a two-year funding of £3.3 million for the period 2017-19.

Global Best-in-Class – the South-Korea Case study

Successful export of Korean dramas fuels robust investments in VOD productions

24. Korean productions are popular worldwide due to the successful export of Korean popular culture (the "Korean Wave"), as well as their widespread availability through both local and international streaming services which currently operate in an open market environment, driven by market demand. Korean dramas also offer subtitles in multiple languages and have been adapted throughout the world.

25. In 2018, the film and television industry directly contributed $7.1bn (KRW8,280bn) to the Korean economy, with the VOD sector accounting for $206m (KRW240bn) of this total.[17] By 2020, the sector's contribution had more than tripled to $669m (KRW780bn).

26. The film and television industry directly supported 78,000 Korean jobs through its investments and operations in 2018.[18] Taking indirect effects into account, the total contribution of the film and television industry to GDP Korea in 2018 was $17.4bn (KRW20,300bn), generating $5.4bn (KRW6,260bn) in tax revenues.

27. Domestic and international VOD providers invest heavily in content to support their services globally. In 2019, VOD providers directly invested $25.7bn (KRW29.9trn) in VOD content worldwide, including original and licensed titles. This amount is likely to reach $61bn (KRW71.1trn) by 2024.

28. The "employment multiplier" measures the number of direct, indirect and induced jobs created by investment in a particular area. The multiplier for the creative economy in Korea means that for every new position in film and television, around 2.72 jobs were created as a result in other sectors of the economy.[19] In 2018, the industry supported 315,400 jobs both directly and indirectly through supply chains, with VOD investments responsible for 7,820 of them.[20]

Comparing Australia's policy settings to those in the United Kingdom and South Korea.

29. The screen sector has thrived in Australia over the past few years, as demonstrated by the $1.9 billion in screen production activity in 2020-21, and the policy decisions of successive Coalition Governments have strongly contributed to this success.

30. However, Australia can do better. If Australia were to be able to develop a screen industry of equivalent size relative to the overall economy as the United Kingdom has, it would add $2.94 billion of screen production activity to the Australian economy, for a total of $4.85bn. That may seem an aggressive goal, and it will probably take the better part of a decade to achieve, but it is possible,

[17] MPA APAC, The Economic Contribution of Film and Television in Korea in 2018, December 2018

[18] MPA APAC, The Economic Contribution of Film and Television in Korea in 2018, December 2018

[19] Olsberg•SPI, Global Screen Production – The Impact of Film and Television Production on Economic Recovery from COVID-19, June 2020. It estimated that the employment multiplier for the Screen Sector Value Chain in Asia is 3.72

[20] MPA APAC, The Economic Contribution of Film and Television in Korea in 2018, December 2018

especially once you realise that Canada reports C$8.9 billion invested in screen production in 2018 (or $9.77 billion) in an economy that's just 21% larger than Australia's – of course with the benefit of its proximity to the United States market.[21]

31. ANZSA has compared Australia's policy settings relative to the United Kingdom and South Korea, and it is clear that Australia is now within an easy grasp of replicating the UK's policy settings.

Measure	**United Kingdom**	**South Korea**	**Australia**	**Gap-Analysis**
Production Incentive	25% tax relief offered to feature films, high-end television and other sectors for both local and international productions	20-25% cash rebate on production costs for films, television series, and documentaries for international productions	30% Producer Offset for local non-theatrical, 40% Producer Offset for local theatrical, and a 16.5% Location Offset to be complemented with a 13.5% equivalent Location Incentive Grant for successful applicants for international productions	Combine the Location Offset and the Incentive program with an enhanced and predictable Location Offset rate of 30%.
Market Regulation	Very little Government intervention, and no obligations imposed on SVOD and AVOD services, ensuring producers focus on developing stories with global market appeal.	Currently no explicit regulations imposed on VOD services.	Morrison Government reduced local content obligations for commercial broadcasters in the past year and is considering whether to regulate VOD services or not.	None
Copyright Theft legislation	Section 97A providing for injunctive relief for rightsholders	Article 104 obligates online service providers to take necessary measures including blocking illegal forwarding of copyrighted works upon request from rights holder.	Section 115A of the Copyright Act provides for injunctive relief for rightsholders against CSP's and search engine service providers.	Scope to apply a broader service provider definition to the statute.
IP Enforcement	UK IPO funds a dedicated IP Crime unit	Korea Copyright Protection Agency under the Ministry of Culture Sports and Tourism. [22]	No dedicated funding available for addressing IP Crime in Australia	Establish a dedicated IP Crime Unit within AFP, initial funding requirement $1 million per annum.

[21] ANZSA calculations utilising Screen Australia Drama Report, UK Screen Business Report and Canada's Profile 2018 – Economic report on the screen-based media production industry in Canada, <https://cmpa.ca/wp-content/uploads/2019/04/Profile-2018-EN.pdf>, and overall economic data sourced from <https://countryeconomy.com/countries>

[22] https://www.copyright.or.kr/eng/about-kcc/introduction/introduction.do

ANZSA's recommended Treasury policy changes

Increasing Australia's Location Offset rate to 30%

32. A stable, competitive and predictable rate of 30% would enable Australia to truly capitalise on Australia's creative talents and the increasing global demand for quality screen content. It would provide predictability for those seeking to invest in screen infrastructure and training. In fact, this process has already started with State Governments and Private Investors responding to the opportunity that a competitive Federal screen production incentive provides by investing in additional screen production facilities in Ballina, Brisbane, Cairns, Coffs Harbour, Fremantle, Melbourne and Penrith. This is entirely consistent with the findings in the recently released AFCI Best Practice in Screen Sector Development report. [23] The report explains:

    Increases in the volume of global production, and in the size and technical requirements of high-end productions, means that there is currently an undersupply of physical production space in many markets worldwide. At the same time, the elevated importance of post-production and visual effects in modern filmmaking has created a huge demand for studio infrastructure of this kind – making an adequate supply of it invaluable to hubs like the UK, Vancouver and Australia.

33. But even those projects will not suffice to achieve Australia's potential. And with enough funds left to support approximately $2 billion of new projects in the Location Incentive fund, which at the latest run-rate of $1 billion per year will only cover two years of activity, there is simply not enough certainty to justify investment in new screen infrastructure.

34. The same is true for training and education; institutions need to have certainty to justify the long-term development of training and educational capacity.

35. Increasing the Location Offset to a straightforward 30% rate would not increase the overall rate invested today (the 16.5% Location Offset and the 13.5% Location Incentive combine for a 30% rate today) and the costs to Government of such a decision would be capped in the short to medium term as the production facilities and the availability of highly skilled and experienced crews will determine the ability of the sector to service international productions. In fact, the record-high $1 billion in inbound investment supported by these programs was achieved by utilising Convention Centres on the Gold Coast and Melbourne, as well as a number of warehouses, which were only available due to the lockdown stopping the normal activity of these facilities, making the impact on the forward estimates negligible.

Funding a dedicated IP crime unit within the Australian Federal Police

36. ANZSA's members are part of the Motion Picture Association (MPA) and the Alliance for Creativity and Entertainment (ACE). The investigation team from MPA/ACE have submitted two criminal referrals to the Australian Federal Police for investigation in mid-2020 and early 2021. The two investigations are of high importance to our members and at the time of reporting detailed significant alleged illegal activity which were harming the economic interests of the members of the MPA and ACE. No enforcement action has been undertaken to date.

[23] Association of Film Commissioners International, Best Practice in Screen Sector Development, September 13 2019, <https://afci.org/research-best-practices/>

37. We recommend the establishment of a small, dedicated IP Crime Unit to make sure such cases are suitably prioritised, enhancing the effectiveness of the Government's overall policy at a marginal cost to the budget of $1 million per annum.

We would welcome the opportunity to discuss this submission with you.

Appendix A: The Australia New Zealand Screen Association

This submission is made by the Australia New Zealand Screen Association (ANZSA), who are proud representatives of a film and television industry that contributed $5.8 billion to the Australian economy and supported an estimated 46,600 FTE workers in 2012-13.[24]

Australia New Zealand Screen Association (ANZSA) represents the film and television content and distribution industry in Australia and New Zealand. Its core mission is to advance the business and art of film making, increasing its enjoyment around the world and to support, protect and promote the safe and legal consumption of movie and TV content across all platforms. This is achieved through education, public awareness and research programs, to highlight to movie fans the importance and benefits of content protection. ANZSA works on promoting and protecting the creative works of its members. Members include: Village Roadshow Limited; Motion Picture Association; Walt Disney Studios Motion Pictures; Netflix Inc.; Paramount Pictures; Sony Pictures Releasing International Corporation; Universal International Films, Inc.; and Warner Bros. Pictures International, a division of Warner Bros. Pictures Inc., and Fetch TV.

More information can be found at anzsa.film.

[24] Access Economics, *Economic Contribution of the Film and Television Industry* (February 2015) Australian Screen Association <http://screenassociation.com.au/wp-content/uploads/2016/01/ASA_Economic_Contribution_Report.pdf> iv.

Appendix 2. Sources of Finance for Australian TV and Online Drama.