30 January 2019

The Treasury
Langton Crescent
PARKES ACT 2600
AUSTRALIA

2019-20 Pre-Budget Submission

Please find attached the Pre-Budget Submission from Ausfilm.

Ausfilm is happy to clarify any aspect of the submission or to discuss the issuer further.

Yours sincerely

Debra Richards
CEO

AUSFILM PRE-BUDGET SUBMISSION

INCREASE THE LOCATION OFFSET TO 30%

JANUARY 2019

Issue

In the 2018 Budget, the Government allocated $140 million over four years to the Location Incentive Program which effectively provides an increase to the Location Offset rate from 16.5 per cent to 30 per cent for eligible large budget international productions that film in Australia from 1 July 2018.

Ausfilm submits that the Location Incentive Program should transition to a permanent 30% Location Offset by 2022/23 at the latest.

How the Location Incentive works

The Location Incentive will provide funding of $140 million over four years from 2019-20. Grants, upon successful application, will be provided to large budget international screen productions undertaking filming in Australia that perform strongly against the assessment criteria.

To be eligible for funding, productions must

- meet the eligibility criteria for the Location Offset,
- utilise the services of one or more Australian post, digital or visual effects (PDV) providers, and
- secure support from relevant state or territory governments.

The Government has announced the first recipients of the Location Incentive, being the US feature film *Godzilla v Kong* and two US television series *Reef Break* and *Preacher* (Season 4).

The availability of $140 million over 4 years, in combination with the Location Offset is likely to support $1 billion dollars of inward investment, at an average of $250 million a year. This is welcome and Ausfilm thanks the Government for the initiative. It is especially welcome given that, in the absence of a one off grant, no Location Offset driven production commenced in 2017/18. Screen Australia reported only $8 million in foreign location shooting in 2017/18 down from $557 million in the previous year.

The Location Incentive is also an improvement on the policy of giving one-off top up grants to projects, on a case by case basis, which has been the practice over the last five years. This process did not give certainty to international clients or to the screen businesses in Australia.

The Location Incentive is also a grant which, although backed by the four year funding commitment, does not deliver the same level of certainty that a move to a 30% Location Offset would deliver.

Ausfilm notes that projects have to commit to undertake some level of PDV work in Australia. However, because the Location Incentive is a grant there will be a cap on the amount of PDV, as well as location filming that can be undertaken. Given that projects cannot access the PDV Offset, if they also access the Location Offset (and Location Incentive) the base rate of 16.5% is not a competitive reason to continue PDV work in

Australia; although, the additional 10% for PDV work offered by South Australia and Queensland may be attractive to some productions.

Restoring Australia's Competitiveness

The advent of the Location Incentive has restored Australia's international competitiveness in what we excel at and ensured Australia is "open for business" to attract off-shore productions and Foreign Direct Investment (FDI) in the economy. It maintains Australia's image as a creative and innovative nation, and the portrayal of our country as an attractive destination for foreign investment and tourism.

The benefits that large international film and television productions bring to screen practitioners and small businesses are significant, enabling skills retention and growth along with investment in new technology, equipment and other infrastructure. There are also downstream benefits for the retail, hospitality, tourism and other industry sectors. Importantly, because this is stimulated by FDI it is activity that would not otherwise have happened. It is a plus to the economy.

In the last 20 years, based on Screen Australia data, Ausfilm estimates about $4 billion worth of international footloose location and Post, Digital and Visual Effects (PDV) spending has occurred in Australia. That is inward investment that could have gone to other locations around the world, but was instead spent in Australia, employing thousands of Australians and providing work for production and post-production services companies; as well as flowing out into the wider economy to non-screen businesses that provide services and goods such as hospitality, timber for set construction, specialised ropes and cranes for rigging, accommodation and transport to name a few.

In the past two decades international production has become an essential element of the ecology of the Australian screen sector. Without it the value of the sector to the Australian economy would shrink and many of our talented crew and VFX artists would leave the country to go where the work is located. Indeed when international production is sparse we lose key crew to other territories as the US studios value the expertise of Australian crew shooting in foreign locations.

The scale of footloose production has also contributed to innovation and the development of world-class skills that have flow on effects to Australia's production industry. This is capacity building in that it helps stimulate investment in physical production, such as increasing the number of sound stages and facilities, new digital technologies and software and advancements in drone camera technology (Australia is a world leader in this area and has created the lightest drone camera platform in the world, thanks to international investment). Critically, it also provides continuity of employment and services utilisation, as well as stronger linkages with the global audiovisual economy.

Much of the international production coming to Australia originates from Hollywood. That is why marketing Australia and its screen incentives to US studios and independent producers has been a main focus for Ausfilm and its membership during this time. Ausfilm is one of the few film commissions in the world to have a permanent presence in Los Angeles – Ausfilm USA, with a team of three full time staff, who are well known to the US market and the gateway to Australia's industry.

There continues to be plenty of competition for that Hollywood work from other jurisdictions, both within the USA and in other countries. A few years back we asked ourselves just how big is this market for footloose production in which we are competing?

To answer this question Ausfilm worked with PwC Australia to make an estimation of the value of feature film production leaving California in a year. The research found that the value of just footloose feature production alone, leaving California in 2012 was $US4.1 billion and $US4.6 billion in 2015. That is feature films only and does not account for the steadily increasing amount of television production that is footloose including the disruptors like Netflix, Amazon and Apple TV. In 2018 there were 495 scripted television programs produced in the US, an increase of 86% on the number produced in 2011. In 2018 there were 160 scripted shows made for streaming services.

In February 2018 Ausfilm launched *The Value of Global Footloose Production* which documents the trends and policy measures that shows Australia is not alone. Footloose production has delivered positive economic growth in every international jurisdiction studied.

But, it is not just from the US that Australia sees footloose production coming to this country. China is of growing importance.

Over the last eight years Ausfilm has worked closely with the Australian Embassy in China and Screen Australia to market Australia as a location through the Australia-China Film Industry Exchange. This year, eighteen government representatives and screen businesses travelled to China as part of this program. This program successfully connects Australian screen businesses (Ausfilm Members) and Australian producers to Chinese screen executives and entertainment and media companies in China.

This is now bearing fruit. In 2017/18 there were 18 Chinese projects that either shot or did PDV work in Australia – two of them were official treaty Australian-Chinese co-productions.

To attract this footloose production there are three basic conditions that need to be present

1. Physical infrastructure in the form of studio complexes and film service companies. Soundstages can be either purpose built or can be converted industrial space. The advantages of purpose built studios are that they meet all the needs of contemporary production, including companies providing production and post-production support services. Australia has three studios that attract international production – Fox Studios Australia (Sydney), Village Roadshow Studios (Gold Coast) and Docklands (Melbourne).

2. Skilled labour in the form of cast and, particularly, crew. Those jurisdictions that have a depth of crew talent are more cost effective because the footloose productions need only to bring key cast and some heads of department. Underpinning skilled labour is an investment in training and talent development. Australia has some of the best talent in the world in front of and behind the camera

3. Incentives in the form of tax credits or rebates are a key element in leveraging the competitive advantage a jurisdiction has in labour and infrastructure. The presence of incentives is important, as is the level at which they are set to attract production. At present Australia's Location Offset is not set at the right level.

Of course, other elements add to the attraction of a jurisdiction, such as suitable locations, favourable exchange rates, political and social stability, but if the three key elements are not in place these other elements are not sufficient to make a jurisdiction attractive to footloose production.

Impacts

The latest publicly available information on the value of foreign production in Australia was released in November 2016 by Screen Australia. It commissioned Deloittes Access Economics to undertake a study of the value of the industry. According to this report the total economic contribution of foreign production in Australia in 2014-15 amounted to $382 million in total value add and 4,093 in FTE jobs. A significant component of this is the indirect contribution made by labour and value-add flowing into the economy. The main contributor to this was *Pirates of the Caribbean: Dead Men Tell No Tales.* (Deloitte, 2016, p18)

In 2017 the New Zealand Institute of Economic research published an economic study of the NZ screen industry. In that study the institute modelled the impact of having an industry half its current size and not having the NZ Screen Production Grant, which is the equivalent of the Australian Producer and Location Offsets. This modelling predicted that NZ screen industry would decrease GDP by $NZ525 million, reduce export volumes by $NZ353 million, a real wages would drop and household consumption would fall by $NZ144 million.[1]

In 2018 the British Film Institute published a study undertaken for it by Olsberg SPI looking at the impact of the UK screen sector tax reliefs on economic growth across the UK. [2] The study found that in 2016 there was total film and television production spending of GBP 2.6 billion, which generated119, 460 full time equivalent jobs and a Gross Value Add (GVA) to the UK economy of GBP 6.9 billion. For every GBP spent on film production there was a return of GBP7.69 in GVA and for high end television production a return of GBP6.10.

Introducing this report Philip Hammond, Chancellor of the Exchequer explained the support provided by the UK Government was because *…our creative industries are intrinsic to the rich cultural fabric of the UK. But they're also an important part of a dynamic and diversified economy, and a key component of our great, global trading nation.*[3]

An earlier report by Olsberg SPI for a number of screen agencies around the world including Screenwest in Western Australia called Film and the Creative Economy; how film and Television Drama Productions Grow the Creative Industries demonstrates the dynamic impact of the screen sector on the growth of creative industries.[4]

For this report, the hypothesis which was tested is what the authors call the 'creative industries ripple effect' of film and television production. More than any other part of the creative industries film and television production stimulates growth in the creative industries because the process of manufacturing calls upon services from other parts of the creative industries in a large and consistent way, as well, of course drawing upon goods and services from outside the creative industries.

To undertake the study the researchers analysed the production expenditure of one feature and one television production from each of Australia, Denmark, Sweden and Holland. The productions were chosen to be relatively similar in scope and size, excluding animation and heavy VFX projects. Expenditure was then classified into three types:

- Within the TV/Feature sector
- Other Creative Industries
- Outside the Creative industries

What they found was that consistently across film and television, 37% of expenditure came from within the relevant sector. For feature films a further 38% came from other creative industries and 25% from outside the creative industries. For television drama, 47% came from other creative industries and 16% from outside the creative industries.

This effect applies to both domestic and foreign production and shows how production expenditure spills over into the wider economy.

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[1] http://www.nzfilm.co.nz/sites/nzfc/files/NZIER%20report%20the%20Economic%20Contribution%20of%20the%20Screen%20Industry%2022%20November%202017.pdf
[2] https://www.o-spi.co.uk/wp-content/uploads/2018/10/Screen-Business-Full-Report.pdf
[3] Ibid, p.8
[4] https://www.o-spi.co.uk/wp-content/uploads/2017/07/SPI-Creative-Industries-Report-2017-07-31.pdf

Conclusion

Foreign film production makes an essential contribution to the health and development of the Australian screen sector. This has been recognised by the Australian government through the implementation of the Location Offset, the Location Incentive and the PDV Offset.

Ausfilm submits that these are important initiatives that underpin growth in the sector. However, Ausfilm submits that the most effective, efficient and certain outcome would be to increase the Location Offset to a rebate of 30% on expenditure in Australia on location shooting.

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