



5th April 2017

Submission into the Parliamentary Inquiry into the Australian Film and Television Industry:

Iloura is a VFX and animation business based in Melbourne and Sydney with approximately 300 staff.

Iloura was founded in 1987 in Melbourne and in 2012, was launched in Sydney. In the last 18 months, Iloura has been nominated for two Academy Awards for its work on Mad Max:Fury Rd and Deepwater Horizon and in 2017, won an Emmy for its work on Game of Thrones. In late 2012, Iloura was acquired by Deluxe, a multi-national leader in the field with a base of operations in the USA. Deluxe itself is a well established brand and outside of Australia has key sites in New York, Los Angeles, London, Vancouver and is continuing to investigate opportunities to expand into high rebate regions

The VFX industry is highly competitive. Several Tier 1 facilities (5-6) dominate the market and secure a large percentage of the work and dollars on offer. Tier 2 and 3 facilities tend to scramble to secure what is left.

Whilst there is a significant differential between the top and bottom facilities, there are few points of difference between those who sit in the middle and as such the competition for this work is fierce. In Australia, apart from Animal Logic, all facilities fall in to this mid-range. Studios have many options knowing that the quality of work is similar and the costing of such work is also often aligned. Invariably Studios will revert to wherever they can get the best deal.

Whilst the federal government rebate is relatively competitive on a global scale, the chase for the highest rebate or best deal is a significant impediment to the enormous potential that exists in Australia.

As it stands there are 4 key rebate regions that house quality vfx artists

- Australia – rebate of 30%
- UK – rebate of 25%
- British Columbia, Canada – 32%
- Quebec, Canada – 43%

Deluxe currently has VFX sites in three of these regions, Australia, the UK and British Columbia and like many other global VFX businesses is assessing options in regions such as Quebec where the rebates sit at 43%. The driver behind expansion is in response to the US Studio systems desire to achieve capacity and quality whilst maximizing the highest possible financial incentive. As this evolves, we will simply will not be able to compete. And worth noting that many of the Tier 1 VFX companies have either set up or are setting up additional headcounts in Quebec to secure a larger piece of the pie.

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Additional impediments such as time zone, and geography are not helpful in placing Australia as a vfx destination and this further reinforces the need to match, if not exceed the highest of global rebates.

Hand in hand with this must be a strategy around increasing the location offset from 16.5% to minimum of 30% The current offset is not competitive by many other filmmaking destinations and is certainly well below our major competitors in the US, UK and Canada. We appreciate that many incoming shows are 'topped up' to achieve a higher rebate than the advertised 16.5% but if we genuinely want to attract key projects, a declared new and competitive location offset is crucial.

This raises a further issue around the disconnect between PDV and location offset. As it stands, there is no incentive for Studios shooting in Australia to keep work in Australia. Many significant productions, such as Pirates of The Caribbean, San Andreas and Kong: Skull Island have taken advantage of the location offset (and we suspect a top up) but have left little or no VFX behind. If the location offset is not increased, then it at the least needs to be decoupled from the PDV offset to incentivize Production to leave work in Australia.

Finally, we need to include new delivery formats such as streaming content, theme parks and gaming under the PDV. Iloura recently lost a \$10m contract on the basis that the format did not qualify for PDV. The current legislation and eligibility is outdated and needs to be changed.

Recommendations:

- 1/ Increase PDV from 30% to 43% matching Quebec
- 2/ Increase Location Offset from 16.5% to 30%
- 3/ Decouple the PDV and Location Offsets
- 4/ Redefine the eligibility of platforms to include alternate delivery formats

Australia has a vibrant and strong industry however under current terms that will not last. It cannot compete with high rebate regions, particularly Canada. The talent drain is significant –as we train new staff they are recruited globally into the hungrier and stronger markets.

Thank you for the opportunity to submit these views and I look forward to hearing the outcomes of the Inquiry.

Regards

Deluxe Head of VFX, Asia Pacific