



25 March 2017

Inquiry into the Australian film and television industry
PO Box 6021
Parliament House
Canberra ACT 2600

Attention Luke Howarth - Chairman

Dear Mr Howarth

I write to you as a producer who has worked in the film and television industry for over 10 years with a working life prior to that which includes experience in sales, marketing, manufacturing, and administration.

Your Committee is enquiring into "*the Factors contributing to the growth and sustainability of the Australian film and television industry*" and my aim in this letter is to address how the support being provided by government may be focussed for better impact on film and television production rather than simply ask for increased funding.

The Australian market is not big enough to generate the revenue necessary to repay the investment cost of production of either television drama or feature films. Both need overseas sales in addition to Australian sales if the industry is to be sustained and grow. We must produce content telling stories with international appeal.

There has been mention of reducing licence fees paid to Government by the free to air commercial networks and in the event that there is a reduction my belief is that there should be a requirement for a concomitant increase in the funding of Australian drama by the television networks. We already have more than enough television programmes based on lifestyle, cooking etc.

The average time for a feature film is 8 years and many producers work on one project at a time. In the 10 years that I have been involved in the industry my credits include *The Dressmaker*, *Under A Red Moon*, *Circle of Lies*, *Vanished*, *Surviving Georgia*, *The Sunset Six*, *Pawno*, *Boys In The Trees*, *Cargo*, *The Menkoff Method* and *Ali's Wedding*.

If the industry is to grow and prosper it will require continuing government support in addition to telling entertaining stories so that an audience is attracted and hence a revenue stream generated.

Ideally a project should forecast as accurately as possible the realistic revenue it could receive and from this prediction work back to calculate if a realistic budget to create a movie or television series is justified.

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Unfortunately, this approach is quite rare for several reasons.

Most productions are dependent on government finance both for development and production. Because of the need for government money many producers start with and concentrate most of their time and energy on applying for government finance.

I have lost count of the number of producers who have approached me with a cocktail of government grants and investments attached to a project and asked me to make up the shortfall so that they could go into production.

Most of the scripts I read leave me disappointed as I frequently do not find either the characters or the plots engaging. A number of the scripts brought to me eventually go into production and when they are released fail to attract an audience.

I believe there are two factors that could be influencing the development of stories.

Firstly scripts often read as though they have been written with the aim of appealing to either a Screen Australia committee and/or some other government committee rather than with a mainstream audience in mind making them seem art house rather than something the average person would want to watch as a diversion from their everyday life.

Secondly all government funding for production requires that a distributor be attached. Whilst a distributor may be attached they are not necessarily engaged and interacting with the producer regarding the audience appeal of a story. I have also had distributors comment to me that too many producers approach them at the eleventh hour before presenting a submission for government funding and hence the distributor has limited opportunity for input.

Except for a small number of high profile movies many recent Australian films have performed poorly in the marketplace. Cinema owners are reluctant to screen Australian movies because their expectations of commercial success are low. If movies do not have a cinema release they cannot qualify for the full Producer Offset Rebate of 40% of Qualifying Australian Production Expenditure and can claim only 20%. A cinema release is still thought to be a fundamental requirement for a movie to come to the attention of its potential audience and hence to achieve its full commercial potential even though there has been a proliferation in the ways to watch movies.

There is a need to improve the market expectation for an Australian movie and one way to do this would be by producing well told entertaining stories that will improve the public perception.

The industry needs to attract investment in addition to funding from government. Screen Australia dominates the industry and because some of its guidelines and practices differ from normal commercial practice potential investors can be left struggling to comprehend their position.

For example, most producers borrow the projected Producer Offset Rebate but this portion of the finance is referred to as "Producer Equity". It is true that the fine print

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explains things but most do not read the fine print thoroughly and as a result a loan is confused with equity.

Another example is that Screen Australia has its own definition of Gross Receipts which is fundamentally different from the generally accepted definition outside the Australian Film industry in that the Screen Australia definition excludes the Producer Offset Rebate from Gross Receipts.

Piracy is also a major impediment to production investment being reimbursed from revenue.

I was an Executive Producer on the Australian film "*Circle of Lies*" which dealt with female teenage bullying in school which scored a North American release prior to its Australian release. It achieved an (unenviable) record – the distributors (iTunes) decided to release in Canada prior to the USA – a 9-day gap – and in that time, the film was illegally downloaded 985,000 times (the largest for a foreign film!) and 12 months later the count was 1,485,000 and that's when we stopped counting. At US\$0.95c per download, the film has lost a minimum of A\$1,850,000 in returns which would have gone directly to the film's investors who have received less than 2% of their investment of \$2,750,000. The chances of many of them returning for another "bite" are minimal because whilst they are prepared to play in a risk industry, they are not prepared to play when they are subject to larceny.

There is a widely-held belief that a majority of consumers will pay a fair price and those consumers only download illegally when the product they desire is not available legally.

Nevertheless, there is a significant minority, particularly among younger age groups, who mistakenly believe that if something is available on the internet it should be free and this group knows that the chance of them being penalised for stealing is extremely remote. Shopping around the world on the internet for a cheaper price is different from deliberately seeking to avoid payment altogether.

Geo blocking could be used to reduce piracy but that would also prevent consumers from having the widest selection of suppliers to choose from hence a Productivity Commission report has not promoted geo blocking that could reduce piracy.

When it comes to television, like every other English speaking nation in the world (and quite a few non English speakers also) Australia competes on an extremely uneven playing surface because of the size and capacity of the US market. A practical example is that the American series "*Madam Secretary*" starring Tea Leoni has a budget of approximately US\$2.75m per hour and the production company is paid between 85% and 95% of that per hour cost from the North American market.

Therefore, it only takes a handful of sales for the American production company to achieve profit and with such a small margin to bridge, they are not dependant on the size of sales beyond their home market in comparison with Australian production companies' needs.

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In Australia, Network Ten is able to purchase Australian rights for programmes such as Madam Secretary for approximately \$50,000 per hour which sets the Network up to have a profitable hour based on its advertising income.

Australia is one of the most efficient production centres in the world but, that notwithstanding, the average cost of producing an hour of drama now approximates A\$1,000,000 (range \$800,000 - \$1,200,000) and all Networks will pay no more than \$450,000 per hour which is the licence fee prescribed by Screen Australia. Networks will pay that licence fee because they know that producers find it almost impossible to mount a television series without Government investment via Screen Australia and, generally, one of the State bodies as well.

Obviously, an Australian television network will not voluntarily pay an 800% premium for an Australian drama.

It is the prescription of Australian content as laid down by the Australian Communications and Media Authority (ACMA) in various categories (but especially Drama) as a condition of their licence which ensures Australian drama is produced and broadcast.

The base on which the Australian production industry is built is independent television production which, in turn, depends solely on the Australian content rules and it is imperative these are maintained or even increased as any reduction could precipitate the end of the film and television industry in Australia.

There has been a practice over many years of Screen Australia guidelines being changed and producers having to comply with the changes immediately they are announced. Producers cannot predict changes to guidelines, they operate in compliance with the guidelines at the time a movie is made. If the guidelines are changed before a submission is made for the offset, then the result has been significant delay and cost in for example restructuring accounts. Not because there has been any change in the underlying financial transactions, just the need to change the presentation and/or present additional reports which were not required at the time of the production commencing. Having to produce an extra report of over 1000 pages is a very significant imposition.

I have raised a number of issues in this letter which the committee may wish to assess in more depth and I am ready to respond to anything you may wish to understand in more detail.

Yours sincerely,

Ian Kirk
Chairman
White Hot Productions Pty Ltd