



Studio Moshi
Productions Pty Ltd
Level 1, 104 Dover Street
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Australia

TO:
Mr Luke Howarth MP
**House of Representatives Standing Committee
Communications and the Arts**

SUBJECT:
Inquiry into the Australian Film and Television Industry

Dear Sir or Madam:

We are an independent producer and animation production company based in Melbourne Australia. We create and produce high quality animation properties that entertain and engage Australian children, youth and family audiences on Australian screen and around the world. Studio Moshi is a full service animation studio working from script to screen on a totally digital production platform and IT infrastructure.

Attached below is a brief snap shot of our business and industry to hopefully inform a positive discussion and continued support of a diverse broadcaster & digital environment, and continued Australian children's content quota system while also building a strong, sustainable animation industry.

Best regards

Andrew Davies
CEO & Executive Producer
Studio Moshi



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Currently Studio Moshi employs an Australian based crew of 35-40 currently growing to approximately 65 over the next 6-12 months consisting of artists, 2D animators, producers, visual FX, managers, ITC, finance and legal individuals. Our studio is script-to-screen with an all digital pipeline animation production system.

Australia - Not Globally Competitive

As a company, we compete in a global marketplace subject to international currency fluctuation and comparative western (and Commonwealth) countries with highly skilled creative workforces, lower tax bases and higher industry tax credit support

- And countries with bi-partisan government support of their children's animation industries.

Comparative countries share a recognition of the capacity for their local animation industry to be a large scale & long term employer resulting in increased tax receipts, investment in to local & regional economies and foreign (\$US dollar) investment in to local privately owned animation companies.

We co-produce with comparative producer and animation companies in western territories like Canada, France, Ireland, UK, USA and Israel

BUT also compete directly with these countries for billions of dollars invested internationally (mobile investment) on an annual basis in the global children's' animation industry.

These foreign markets also rely on healthy children's content quotas in their region, large market access (USA, EU for example) and strong globally competitive tax credit settings which attract traditional broadcast commissions AND new digital broadcasters investment.

With this broad base support these comparative countries attract a higher work split in their territory for co-productions, higher foreign investment, larger employment ratio, increased tax receipts, higher ITC digital infrastructure investment AND greater capacity and cost efficiencies through ability, via this range of support, to build larger scale businesses.

Lack of large individual Australian businesses (150 plus employees for example) and lack of overall scale in the Australian animation industry is prohibitive to long term sustainability, growth and global competitiveness.



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Access to bigger markets: One of our biggest challenges

Our fee for service 2D animation business success and workforce capacity is largely guided by internationally currency rate fluctuation and is temperamental at best.

Our industry tax credits (PDV) settings are lower than global industry standards – and we simply are Not globally competitive at a federal support level.

Critical to our sustainability and growth in this sector is Australia being inline with globally competitive animation production tax credits available in foreign countries. Similar tax credit support available in comparable western countries like Canada, France, Ireland, Israel and more recently the USA is higher and broader. Alongside this is also the reality that the Australian taxation system both federally and state is less globally competitive – this is also alongside a higher cost of living in major Australian capital cities making our business less globally competitive.

While we have the PDV support here – it is Not as competitive as similar tax credit models in other western countries.

Example of the comparative animation industry support:

Republic of Ireland Animation Tax Credits

- 32% production tax credit (Section 481)
- All of Budget qualifying expenditure, of all script to screen pre-production/production/ post-production tasks and also including all finance and contingency is claimable under the S481 tax credit
- Advanced Cash flow of the S481 tax credit: means cheaper finance for productions based in Ireland – equals lower cost of doing business with Ireland

The Irish S481 tax credit also sits alongside a lower Irish company tax rate than Australia (12.5%) which has bi-partisan support giving certainty to business investment in the sector. Ireland also sits within a broader children's EU content ecosystem comprising both public and private traditional and digital broadcasters – all with access to the European content market with dedicated children's content quotas. This is also backed by a 51% EU production spend criteria for qualification which triggers higher European broadcast license fee ranges.

Canada can also achieve up to 50% of budget in tax credit support in parts of Vancouver/ British Columbia and French Canada for all of budget spend alongside the competitive advantage of close proximity and access to the massive USA marketplace. And access to Canadian and USA talent pool in those territories. Likewise, their broadcaster license fee structure supports local Canadian produced children's content.



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In our co-production experience, Australian wages of artists (design, animation) are approximately 10-12% higher, with storyboard artists possibly up to 20% higher than our co-production partners, such as Canada, however this is subject to the global demand for animation services.

Animation is a large employer of young women and men – and we understand that Ireland alone employs approximately 1,500 (direct and indirect) in the sector - all in a country with a population smaller than the State of Victoria!. This includes businesses and employment in major cities and regional super suburbs like Kilkenny.

France employs in excess of 5,000 people in the animation industry with up to 400 small to medium businesses. Some data suggests the French animation industry alone is valued at approximately US\$ 486 million.



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The success of the children's animation industry in countries like Ireland is that they have bi-partisan and streamlined support from a governmental perspective **focusing on a single tax credit with all of budget qualifying expenditure.**

Not a plethora of interconnected old and new support schemes.

Animation businesses are also allowed to profit – with up to 15% of Overheads claimable as qualifying expenditure in the S481 – Ireland is inline with similar overhead settings in Canada and other western nations.

Suggestions:

- Remove Animation from Screen Australia 'top up' Investment
- PDV and Producer Offset tax credit to be maintained for Animation
- Broaden the PDV to encompass All of Budget qualifying expenditure, of all script to screen pre-production/production/ post-production tasks and also including all finance and contingency
- Provide additional PDV Advanced Cash flow of the tax credit: means doing business and financing production is cheaper and easier in Australia
- Increase claimable Overheads to 12%-15% of below the line production budget
- Include original Australian based spend on development up to \$80,000 to be claimable within PDV expenditure claim
- Allow complete right-off of digital infrastructure within 18-24 month production period

PDV Tier Suggestions:

- Tier 1: PDV 32% All of budget expenditure for Australian and Non-Australian owned entities
 - Making Australia more attractive to global mobile investment 3rd party animation productions / non Australian IP
 - Bringing the PDV settings inline with global competitors for foreign content investment
- Tier 2: PDV 45% All of budget expenditure for Australian majority owned entities ONLY
 - Based on of Australian budget spend of 45% or more of the total global production budget spent in Australia by Australian majority owned companies only
 - Delivering global competitive advantage to Australian owned and run businesses
 - Providing acknowledgement for lack of Australia content market scale
 - Making Australia viable for original TV series production and export – and further increased global mobile investment in to Australian owned and made animated series productions



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- Ensuring large scale investment in to digital infrastructure delivering studios with large scale capacity, higher production efficiency and longer term sustainability
 - Resulting in long term Australian jobs and growth of Australian owned animation businesses
 - Export generating IP: Net proceeds back to Australia from International Sales of the TV series globally AND the Ancillary Digital Rights, Merchandise Rights from the exploitation of original (IP) TV series - delivering further sustained positive cash flow and future business investment, local Australian employment through ongoing animation production and long term revenue streams to Australian businesses
- PDV 100% for Australian Voices / Cast (only)
 - Applied to Australian Voices within the PDV 32% or PDV 45% - total PDV qualifying of Australian voice acting cast
 - Allowing Australian voices to be a valuable and affordable benefit to Australian kids content production

More globally competitive settings in the PDV will result in our Australian animation industry easily supporting 1500+ jobs with business like ourselves employing upwards of 150-300 people on a long term basis. This would also have broader growth flow-on effects in the digital animation sector resulting in increased payroll tax & company tax receipts and broader ITC infrastructure investment and jobs in to our digital sector. It will broaden our overall capacity for large scale productions here in Australian, attracting significantly higher foreign investment (\$US), and our export capacity while supporting Australian cultural ideals and perspectives for young Australians to learn, enjoy and share.



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Employment key points:

- Children's animation industry CAN BE a large scale national employer of young men and women
- Children's animation industry CAN BE a large scale regional employer of young men and women with digital connectivity allowing for satellite studios in regional centres like Bendigo, Ballarat or more remote capitals like Hobart, Tasmania
- Creative employees only require Under Graduate University Degree or high level TAFE / College qualifications (low cost to state for HECS etc)
- Direct pathway from education institutions can be easily integrated in to curriculum 2nd year or 3rd year university mentorship/apprenticeship-like elective streams embedded in to industry productions (including regional University partnerships)
- Animation is a totally digital employer: An end-to-end digital business



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Growth and Support

Recently we (Studio Moshi) have entered in to a joint venture partnership (JV) with UK based distributor Cake Entertainment in an animation studio 'Gingerbread Animation' based in Dublin Ireland, where Studio Moshi holds the majority interest. This extension gives us (as an Australian children's animation producer) greater access to the European children's content marketplace for our original Australian developed IP and broader fee for service opportunities for growth. It also gives us an exclusive production pipeline for our original IP which largely relies on co-productions and which can now be modeled for Australian broadcasters & new digital broadcasters (like Netflix, Amazon etc) in a more competitive finance and commission fee structure (lower).

The combined studio capacity and multi-territory access is already delivering more jobs and growth in our Australian studio with an upcoming animated series co-production between Studio Moshi Melbourne and Gingerbread Animation Ireland soon to be announced.

Our ability to grow and expand in to other global markets is built on the bedrock of Australian children's content quotas which provides a solid base to our business, and the direct and continued employment of highly skilled Australians in the children's animation industry – who are our global competitive edge (our people).

However – our experience in countries like Ireland (and their success) is that private content businesses like ours are supported by a commercial focused agency. In the case of Ireland this is the IDA Ireland: <http://www.idaireland.com/>
An investment and enterprise government agency that is a full service agency that delivers services and incentives for local Irish business to attract foreign investment in to the Irish animation and digital sector – Australian needs to do the same:

Suggestions:

- Form a new government agency focused on commercial digital & animation business development and investment
 - Focused on attracting direct hard foreign investment in Australian majority owned companies
 - To financially support large scale ITC digital infrastructure, jobs and growth in the digital animation sector both in major capitals and regional super-suburb locations (50+ jobs support)
 - To engage on a state & federal government level and inform on sector policy settings and advise on bi-partisan and complimentary state & federal and private support models



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Level Playing Field:

The children's content business has seen the arrival of new digital broadcasters like Amazon, Netflix and others. This has ushered in a new and significant increase in the level of global animated and other children's' content production with traditional and digital broadcasters competing for exclusive best of breed kids content. Interestingly, the large majority of the production budgets of animated children's content is being spent in other western countries Not Australia.

Australian FTA broadcasters have also come under increasing competition to promote highly engaging, entertaining children's content to keep viewers on their traditional channels AND attract viewers to their new digital platform alternatives. Currently FTAs air foreign G-classified animated children's content Monday to Friday on the afternoons in the 'kids primetime' of approximately 4.30pm to 6.00pm. This content sits back to back with Australian C-classified children's content. The equivalent foreign kids content is also on their digital platforms and is high quality and highly entertaining – and easily monetised for Australian broadcasters with less restrictive advertising regulation on G-classified content.

The challenge for Australian children's content producers is that we cannot produce the same grade of content as equivalent foreign animated kids content under the current C-Classification guidelines. Broadcasters also cannot monetise the Australian kids content like they can with foreign kids content, making Australian children's content less viable commercially. The public ABC broadcaster also has less restrictive guidelines than FTAs and is able to broadcast the same G-classified foreign content on ABC3.

Given both G-classified and C-classified can sit virtually back to back on multiple delivery platforms it seems obvious that the C-classification guidelines need to be tweaked toward G-classification in certain areas while maintaining necessary protections for children not available under G. This will allow Australian FTA broadcasters to monetise our Australian children's content more effectively while we, as producers, keep entertaining Australian kids with ideas and a world outlook that is unique to Australians - while supporting Australian culturally significant values (like anti-gun culture and gender equality, to name a couple) and that define our diverse and successful multicultural society, and democracy – with a few fart gags thrown in!

Suggestions:

- Tweak / Soften existing C-classification to:
 - Allow FTA broadcasters to monetise Australia children's content more effectively
 - Maintain core C-Classified values to protect young children
 - Provide greater flexibility to Australian producers to engage with Australian FTA broadcasters on more commercial grounds, with



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merchandise partnerships and non literary originated IP for original children's animated series originating or owned here in Australia

- Provide a single classification for kids content on both public and FTA channels, and new digital broadcasters
- Apply content quotas to Digital / SVOD Channels; to count as primary channel commission (foreign and local)
- Remove broadcaster higher commission fee obligation to the Screen Australia investment for animation
- Provide greater commercial incentives for FTAs to invest in Australian children's animated content

A healthy diverse broadcaster ecosystem:

Like the FTAs - the ABC is one of the necessary and integral voices, contributors and financiers to the children's content sector. A healthy ABC provides dedicated Australian children's content within a commercial Ads free environment as an alternative choice to commercial FTAs.

However the challenges on the ABC front for local producers has been many. With a lack of necessary levels of Australian children's content funding sufficient to support the ABC's significant investment in the industry – this has caused a significant halt in development and production has occurred.

It is very positive news to hear Michael Carrington joining ABC Kids, who is a much welcomed professional with global commercial experience in the children's animation industry. It is also positive to see the streamlining of the ABC overall for more children's content funding. However, the delays in ABC children's content investment to date have been at the cost of less Australian voices on Australian screens for young Australians to hear and recognise. It has also had significant damage on Australian produced shows with a lack of development of Australian TV original series – this has seen much needed young and upcoming creative and artistic talent leave Australia to commercialise their home grown ideas- the ABC is the only broadcaster willing to invest in development where young artists & writers and companies can take the necessary creative risks outside of privately funded development.

In recent years lack of funding has also seen a significant increase in foreign kids content on the Australian broadcaster – while we also enjoy many partnerships with international partners and love to see high quality co-produced shows on the ABC - we also really need to hear Australian voices and see Australian ideas on our public broadcaster – front and centre!



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Suggestions:

- Australian produced or co-produced kids content given dedicated broadcast 'kids primetime' scheduling times: morning and evening
- **Foreign acquisition content to be Digital Only** on ABC digital channels (Pre-School and Children's)
 - Content Co-Developed with Australian majority owned businesses given TV schedule and Digital promotion priority
 - Short run TV window only for foreign acquisitions

***Please Note:** co-produced content (between Australian producers and international partners in series production) needs to still be considered Australian content.

While we understand pay models may not meet current ABC Charter – we believe a pay-per-view digital option should be a point of discussion for foreign acquisition content with revenue to fund ABC development Investment in to local Australian kids content of TV and digital series.

- **No Single Desk ABC**, a single broadcaster would usher in state sanctioned content and see the return of a non competitive 'Jobs for Mates' environment in the producer industry
- **ABC to support and incentivise Australian voices** alongside a special PDV 100% claim Australian voice as extra incentive and support of Australian voices on Australian screens
- **Bi-partisan government support of ABC Kids** as one of the healthy investors in to Australia produced / co-produced children's content