

Australian Broadcasting Corporation

Submission to the

**House of Representatives Standing Committee
on Communications and the Arts**

**Inquiry into the Australian Film and
Television Industry**

March 2017



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Executive Summary

The ABC is a proud investor in and contributor to Australian screen content, and regards this commitment as fundamental to the Corporation's Charter and a key tenant of its social contract with the Australian public.

Over the last 60 years, the ABC's contribution to the screen industry has delivered significant cultural and economic benefit to Australia. Today, the Corporation is an integral part of the Australian television and film environment; fostering creative talent, working in close partnership with the production industry, and creating and commissioning programs that resonate with the Australian people.

Over the last two decades the ABC, along with media organisations worldwide, has borne witness to increasingly rapid technological change, greater competition from international players, rising production costs and audience fragmentation. All of these elements have coalesced to have an impact on the economics of producing Australian content, which threaten the growth and sustainability of the industry. In turn, without recourse this situation will ensure there will be further diminution of Australian voices and content on Australian screens.

A flourishing artistic and cultural environment helps sustain a distinctive and cohesive society. Since the 1970s, Australia's successful screen production industry has increasingly created a prism for how Australians see themselves and how we project ourselves onto the world stage. The screen industry that was incubated in the early 1970s and thrived throughout the 1980s and beyond was primarily created through effective cooperation between producers, broadcasters and government agencies.

As technology overcomes global physical distance and artificial regulatory barriers, it is important that we review regulatory settings in this changed environment and whether the relevant frameworks are responsive to the challenges faced by the industry. The ABC believes that there is scope to ensure:

- the producer offset properly reflects the parity between the television and film industries, raising the television offset to 40 per cent to deliver greater impetus for television investment
- the Australian Content Standards are appropriately calibrated to ensure a vibrant and diverse slate of television programming for audiences; and
- the industry is sufficiently prepared for future audience trends and the continued proliferation of international content.

1. Introduction

The ABC welcomes the opportunity to contribute to the House of Representatives Standing Committee on Communications and the Arts inquiry into factors contributing to the growth and sustainability of the Australian film and television industry.

The creation, and broadcast of local content is a critical driving force for the Corporation's day-to-day activities. As the national broadcaster, the ABC is charged under its Charter to broadcast programs that "*contribute to a sense of national identity and inform and entertain, and reflect the cultural diversity of, the Australian community*"¹. The ABC's corporate strategy further sets out the Corporation's vision as being "*the independent source of Australian conversations, culture and stories*".

This obligation and strategic direction underscore the Corporation's more than 60-year investment in the creation of Australian screen content that has entertained, informed and educated Australians of all ages, including such iconic programs as *Play School, Bananas in Pyjamas, SeaChange, Jack Irish, Kath & Kim, Miss Fisher's Murder Mysteries, The Slap, Secret River, The Late Show, Micallef, Good Game, Little Lunch, Countdown, Rake, Catalyst, This Day Tonight, Four Corners and Behind the News*.

While recent technological advancements, increased international competition and audience behavioural changes have impacted – and continue to impact- significantly on the industry, the ABC remains firm in its commitment to support and nurture the Australian screen industry and to provide to the Australian public screen with content that informs, entertains and educates, now and into the future.

¹ The *Australian Broadcasting Corporation Act (1983)* (ABC Act)

2. The ABC and Australian screen content

The ABC's commitment to creating, acquiring and broadcasting Australian stories is a critical contribution to the national culture, history and identity. The Corporation's ability to create and share stories disseminates and affirms shared cultural understandings.

In doing so, the Corporation actively promotes social cohesion, provides a platform through which to engage in social and political discourse, and helps to build a strong national identity. Over time, the Corporation's investment and the Australian stories it produces and disseminates build and can be regarded as a reservoir of Australian cultural history.

Such a significant contribution does not come without significant investment. Over the past two budget trienniums (2009/10 to 2015/16), the ABC has committed over \$640 million to 2179 hours of Australian screen content. Through collaboration with industry partners this has created over \$1.2 billion worth of Australian production, including:

- \$289 million towards 492 hours of first release Australian fiction (including drama and narrative comedy) valued at more than \$510 million in total.
Of this:
 - drama comprised 328 hours, with an ABC contribution of \$222 million, valued at \$389 million in total.
 - narrative comedy comprised 164 hours, with an ABC contribution of \$67 million contribution, valued at \$121 million.
- \$84 million of ABC investment towards 659 hours of children's content, including children's drama, valued at more than \$263 million in total.
- \$58 million of ABC investment towards 337 hours of documentaries, valued at \$158 million in total.
- \$210 million of ABC investment towards 692 hours of other programming across the remaining genres of arts, Indigenous, factual and entertainment, valued at \$302 million in total.

Investment by broadcasters and screen production companies and agencies also have a multiplier effect on the broader economy – catering, building, transport and other service industries benefit from investment in television and film. Importantly, screen productions shot

on site also contribute to local economies and can subsequently help boost regional tourism. For example, 2016's hit ABC comedy, *Rosehaven*, which was set in Tasmania, employed 90 local cast and crew and injected \$1.8 million into the local economy.

Screen Australia's 2016 Screen Currency report found that overall the creation of Australian screen content injects \$3 billion into the Australian economy annually, generating more than 25,000 jobs. International tourists who come to Australia after watching our stories on screen contribute an estimated \$725 million annually. International feature film, television drama and documentary sales earn at least \$252 million annually. Australians place a value of \$17 billion annually on local content and more than three quarters (76 per cent) support Australian Government investment in the screen sector².

3. Growth and sustainability of the screen industry

a. Changing media environment

The way in which Australians view screen content has changed markedly over the last decade. This is due to several factors outside the control of the industry, including the rise of the internet, the advent of tablets and the decrease in the cost of electronics.

OzTAM's Multi-Screen Report highlights the results of these changes, noting that Australian households now have an average of 6.4 screens per household, the majority of which are internet enabled³.

The vast majority of Australians still watch linear broadcast TV, and more people are watching more screen content across more devices in Australia. However, live TV viewing is falling and there has been a small but significant shift away from broadcast television to online viewing, particularly in the younger demographic.

² Screen Australia, *Screen Currency: Valuing Our Screen Industry*, November 2016
<http://www.screenaustralia.gov.au/fact-finders/reports-and-key-issues/reports-and-discussion-papers/screen-currency>

³ OzTAM, Australian Multi-screen Report, Quarter 4, 2016, page 1.

Young Australians also spend more time watching content on their phones and tablets than their older counterparts; and for almost every age group, mobile viewing in 2015 was higher than in 2014.

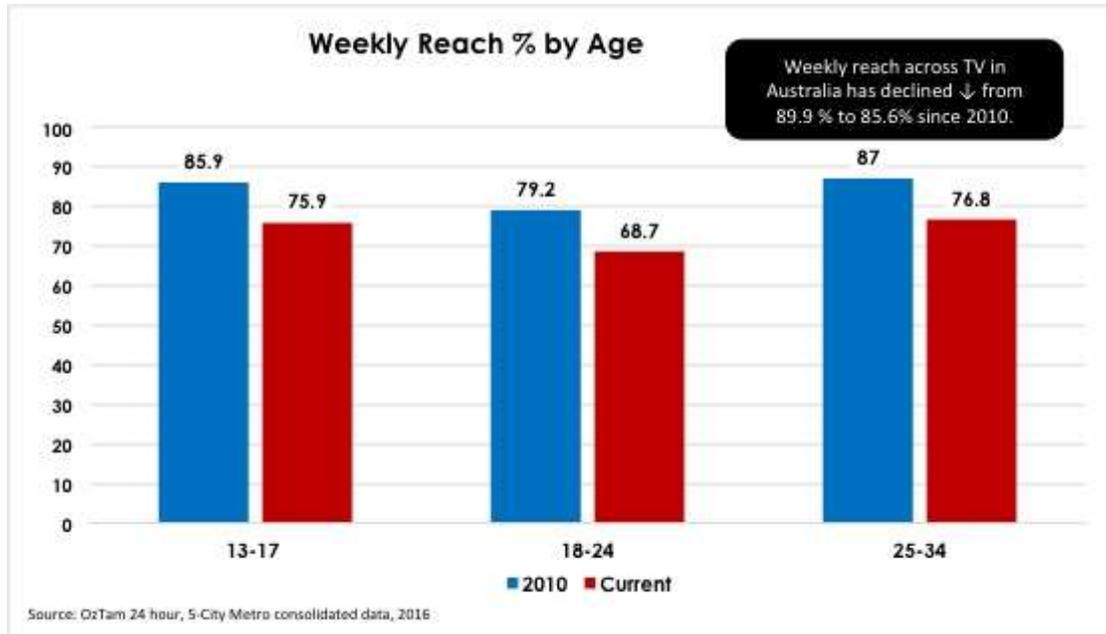


Fig 1: Television weekly reach by age in Australia (Source: OzTam 24 hour, 5 City Metro consolidated data 2016)

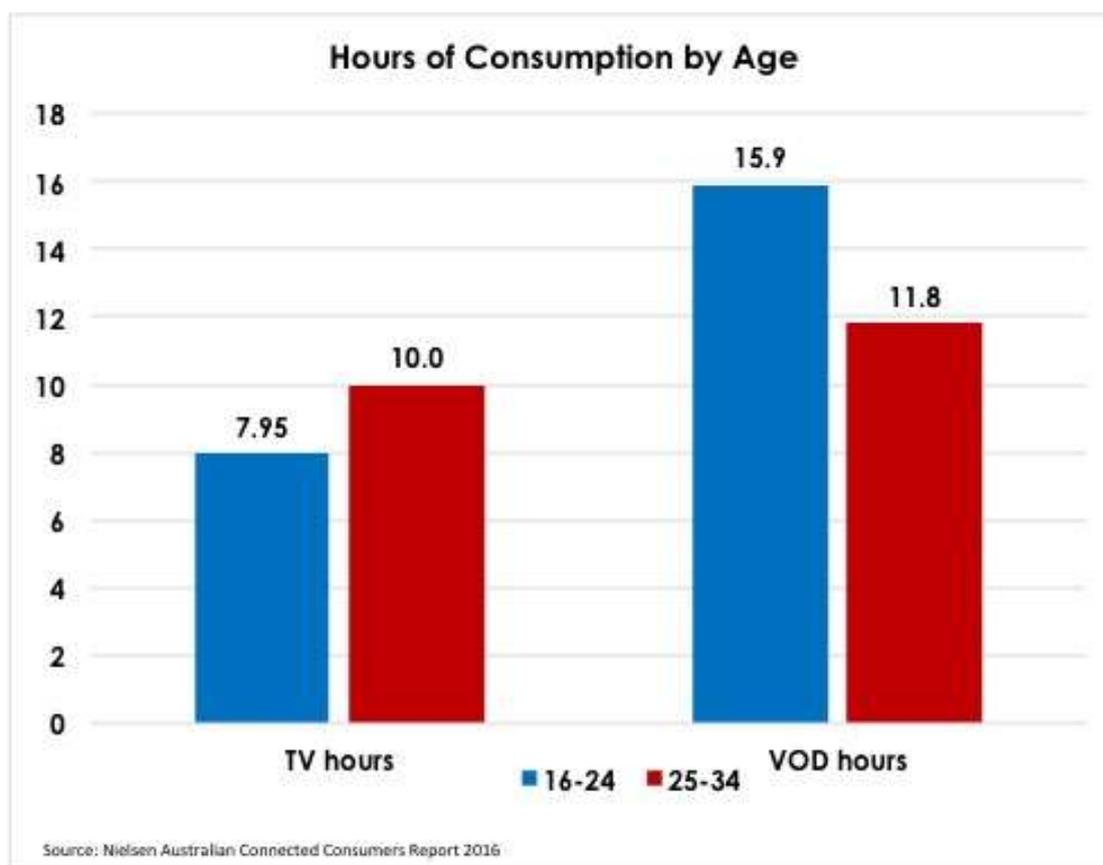


Fig 2: Television hours of consumption by age in Australia (Source: Nielsen Australian Connected Consumers Report 2016)

In recent years, a significant driver of industry disruption has been the arrival of international subscription video-on-demand (SVOD) player, Netflix, which launched in Australia in 2015 and has quickly gained a majority share of the market.

As at May 2016, more than 5.5 million Australians subscribed to Netflix, significantly more than subscribe to Foxtel's SVOD service, now called Foxtel Play⁴; or Fairfax and Channel Nine joint SVOD enterprise, Stan. The entry of Amazon Prime Video will also likely further disrupt Australian audience's media consumption.

⁴ Nielsen (2017) "Small screens driving audience growth to Netflix."
<http://www.nielsen.com/au/en/insights/news/2017/small-screens-driving-audience-growth-to-netflix.html>

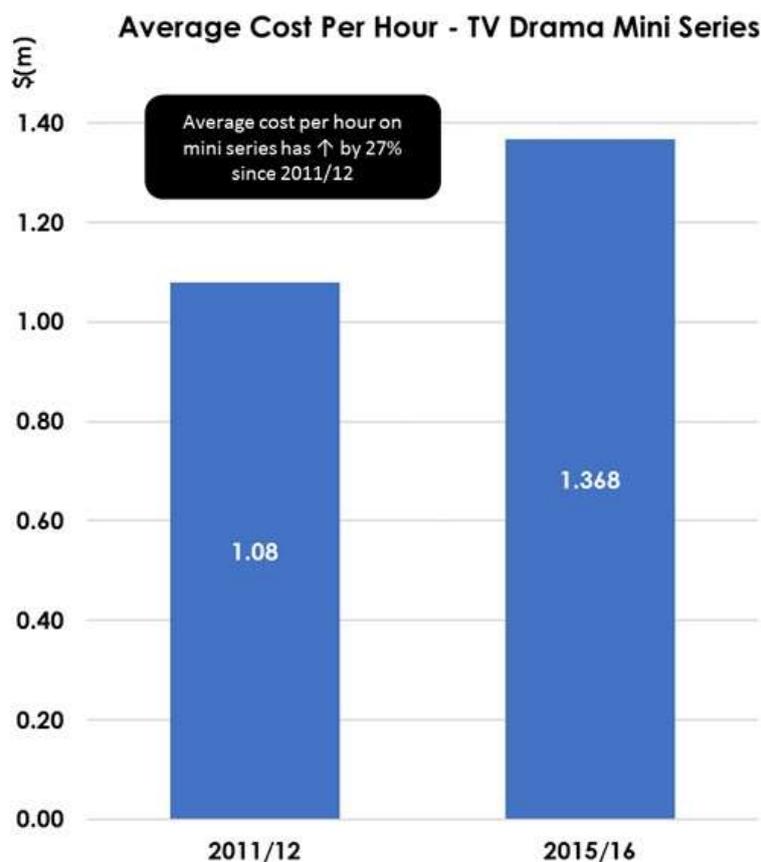
Roy Morgan Research (2016) "More Australians now have SVOD than Foxtel"
<http://www.roymorgan.com/findings/6957-svod-overtakes-foxtel-pay-tv-in-australia-august-2016-201609081005>

As an English-speaking environment, the Australian media market is obviously most open to competition in the form of English-speaking programs from overseas markets, particularly the United States and the United Kingdom.

The ability for local industry to compete with international productions is inhibited not just by the scale of production from these companies, but also by rising production costs in Australia. Screen Australia's 2015/16 Drama report noted a 21 per cent increase in the hourly cost of television drama (combined adult and children) production in Australia from 2011/12 to 2015/16. The Report also notes a rise of 27 per cent in hourly production costs for adult mini-series drama programs (programs categorised as 'quality' series of up to 13 one-hour episodes)⁵. The Report estimates that the hourly cost of such locally-produced programs is now \$1.37 million.

This rise in costs is in part driven by a local and global appetite for higher production values, but also by greater competition for on- and off-screen talent. Recent trends indicate that Australian writers, directors and actors are increasingly lured overseas by higher rates of pay, putting more pressure on local productions to retain local talent.

⁵ Screen Australia, *The Drama Report 2015/16*, November 2016
<https://www.screenaustralia.gov.au/fact-finders/reports-and-key-issues/reports-and-discussion-papers/drama-report-2015-16>



*source is Screen Australia - The Drama Report 2015/16 (page 13)

Fig 3: Increase cost per hour Australian TV Drama Mini-Series (Source: Screen Australia The Drama Report 2015/16)

The impact of these changes is self-evident- rising costs, fragmenting audiences, declining revenues and diminished resources contribute to a challenging environment for Australian producers and broadcasters. Ultimately this adversely affects the number and quality of Australian stories on our screens, as well as the economic returns and employment opportunities in the sector.

b. Regulatory framework

As screen industries provide a means of mass communications and as they have traditionally used public spectrum to do so, the industry has been heavily regulated by government. New players to the market, however, do not carry an equal regulatory burden and are increasingly impacting the financial sustainability of the local market.

In order to ensure the industry is able to reach its full potential and deliver significant cultural and economic benefits to all Australians, it is arguable that there would be significant economic and social benefits if local screen producers were better able to compete with international players.

The ABC considers that such support would primarily be achieved via additional indirect investment through an increased Producer Offset from 20 per cent to 40 per cent.

Secondarily, the ABC also believes that the Australian Content Standards that apply to commercial FTA broadcasters, and which have implications for participants across the industry, be reviewed to ensure they strike the right balance in delivering the breadth and diversity of local content expected by Australian audiences while acknowledging the challenging commercial environment and the growing impact of international players.

Producer Offset

Currently, only Australian films are eligible for the 40 per cent producer offset. Television drama, documentary and children's content qualifies for the reduced 20 per cent offset. An increase to the Producer Offset for television from 20 per cent to 40 per cent would recognise the changed nature of television and film production and the significant investment being made in television content locally. This increase would also create jobs and deliver strong economic returns.

The ABC has previously noted this in its 2010 submission to the Australian Independent Screen Production Sector Review and again in our 2011 Convergence Review submission and the ABC refers to and endorses its earlier comments on this matter.

The Convergence Review recommended that *“premium television content exceeding a qualifying threshold should attract the 40 per cent offset available under the Producer Offset*

scheme". Noting that this would "*bring premium television content in line with the offset available for feature films and directly support content production*". It also noted that:

- The offset should reflect the level of investment rather than the distribution method.
- A higher offset for television was consistent with the principle of regulatory parity.
- There was little difference in net terms between an Australian film costing \$10-\$15 million to make and a high-quality 10-part drama costing between \$1 million and \$1.5 million per episode.

Australian Content Standards

Australian content on commercial FTA television is regulated by the Australian Content Standard, which requires all commercial television broadcasting licensees to broadcast minimum levels of Australian drama, documentary, children's drama and pre-school programs and an annual minimum transmission quota of 55 per cent Australian programming between 6am and midnight. Australian pay TV licensees that broadcast drama channels must maintain a 10 per cent minimum level of expenditure each year on new Australian drama⁶.

Though the ACS does not apply to the national broadcasters, they are required to develop codes of practice relating to programming matters. These codes are overseen by the Australian Communications and Media Authority (ACMA). The ABC also has a requirement to take note of the "standards from time to time determined by the ACMA in respect of broadcasting services". Despite the non-application of the ASC, the ABC makes a substantial contribution to the production and broadcast of Australian content.

⁶ Australian Broadcasting and Communications Authority (ACMA) "Australian TV Content"
<http://www.acma.gov.au/Industry/Broadcast/Television/Australian-content/australian-content-television>

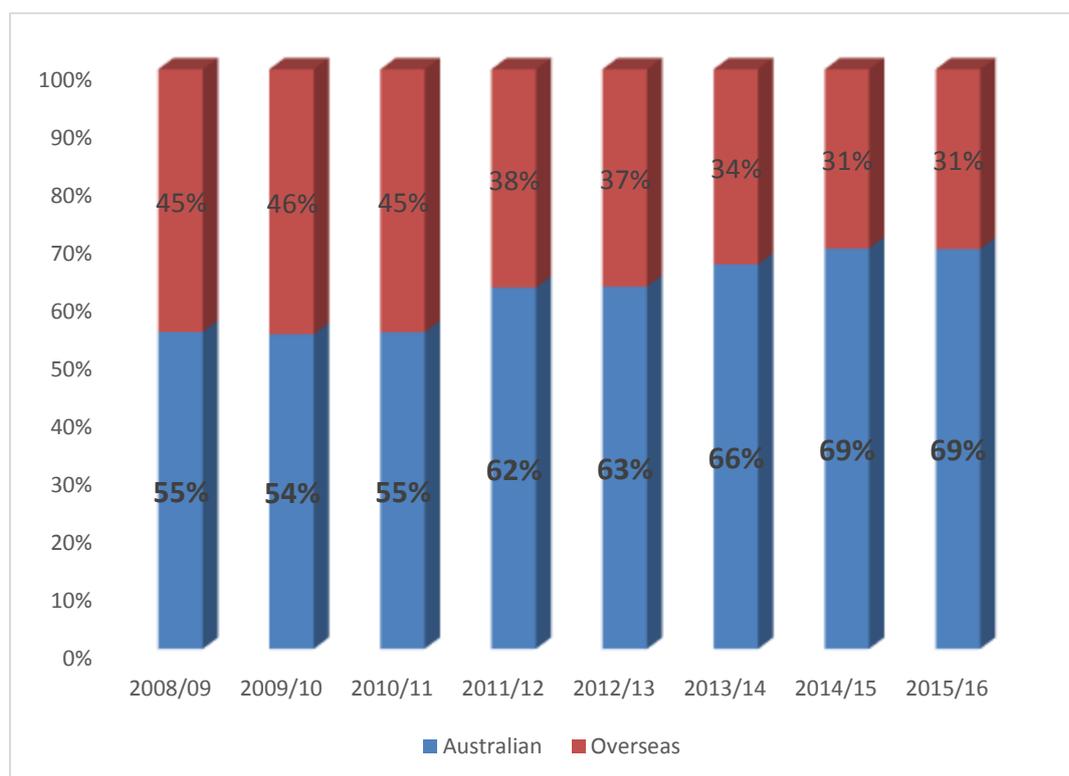


Fig 4: ABC main channel: Australian and overseas content broadcast 6am-midnight (FY09 -FY16) (Source: ABC Annual Reports 2008/09 - 2015/16)

In 2012, the Convergence Review noted that the value of Australian stories was too significant for production to be left to market forces. The proliferation of multi-channels had reduced the proportion of Australian content across all media, prompting the Committee to recommend that Australian content obligations “*should be spread more evenly*” over competing services⁷. In the five years since those findings were released, the media environment in Australia has continued to evolve rapidly, particularly due to the entry of international players into the market.

⁷ Department of Broadband, Communications and the Digital Economy, (2012) *Convergence Review: Final Report*. Canberra, ACT, p viii. http://pandora.nla.gov.au/pan/126527/20120709-1616/www.dbcde.gov.au/digital_economy/convergence_review/index.html

4. Conclusion

The effect of technological disruption has fundamentally altered the way Australians consume screen content. This in turn influences the television and film industry's ability to maintain a vibrant and healthy ecosystem. In this fast-changing environment, Australian voices and stories retain their cultural and economic importance and must continue to be made and broadcast for Australian audiences.

The ABC notes that the Committee has remarked on the financial success of Australian films in 2015. In that year Australian television produced a range of excellent content, such as ABC TV's *The Secret River* and *Glitch*. It is essential that Australian TV producers continue to have the opportunity to make comparable quality content for audiences across Australia. As such, there is a compelling case for increased support for Australian television content production, both to achieve parity with the Australian film industry and to compete more effectively with the influx of overseas content.

The ABC is pleased to play a role in this discussion in order to ensure Australian stories and voices continue to be produced and broadcast well into the future, preserving Australian contributing to the nation's national identity, its cultural history and economic prosperity.