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Opening Statement to Inquiry into supporting Australia's exports and attracting investment

Thank you Chair and for inviting Screen Producers Australia here today. I would like to talk to you about the independent Australian screen industry and its ambitions to grow through export and investment and how that could be better achieved. These supplement our submission that you have.

Screen Producers Australia is the peak business and trade body for our screen sector. It was formed over 60 years ago and it represents the interests of independent producers. There are over 500 members in our organisation—small- to medium-sized businesses that together generate over $3 billion worth of economic activity and employ a workforce of about 25,000 people. As an organisation we do three things. We are a registered employer organisation and negotiate agreements covering pay and conditions with various registered employee organisations and unions, representing casts, crew, writers and directors. Each November, we host an international conference, based in Melbourne this year, called Screen Forever, to which you're all invited. We hope that you might be able to attend. And we advocate on behalf of our members for greater opportunities to grow their businesses

Our industry that brings iconic Australian stories such as the current box office hit *Ride Like a Girl* about Michelle Payne and her incredible at the 2015 Melbourne Cup and the kids' TV series [about a cattle dog called] *Bluey* to our screens. It is the industry that reflects Australian culture to the world and, in so doing, provides a valuable tool for soft diplomacy and encourages visitors to our shores.

Our industry has a core role to play in protecting our nation's interests. We unite and inform the nation with our dramas and documentaries and ensure people can see themselves reflected on screen. Our values and Australian culture are then able to be shared globally.

Last year, Screen Producers Australia commissioned Deloitte Access Economics to do a survey of *Screen Production in Australia*. I have a copy of the survey with me that I will leave for you. The survey showed that relative to other Australian businesses, screen producers are much more likely to be exporting. For example, 43% of production business generate export revenue compared with only 7.6% of Australian businesses. 14% of our revenue comes from exports.

This figure reflects the global nature of the screen industry. And yet, we aren't doing as well here as we should be – the export markers show us that we are importing content at a greater rate than we are exporting and our overall export figure is lower than things were 10 years ago. There is a $1.5 billion trade deficit. And this is at a point of global boom in our industry.

So we do well but we could and should be doing better.

And most or our export dollars are being received by the bigger businesses operating in Sydney and Melbourne generating production activity of more than $25 million. We know that 80% of screen businesses are small to medium sized enterprises – often micro businesses of less than 20 FTEs dotted around the country in all states and territories including regional centres.

The survey also tells us while we export to 225 territories, most of the export income in the sector is generated from the United Kingdom and the United States of America which suggests that there is extensive opportunities in other markets.

So on those two points we know we need to be building export capabilities for greater dollar return across a broader group of businesses. And we need a broader and better set of strategies for our businesses across a larger range of territories.

So what is the industry's ambition? As part of our future-proofing of our workforce and our businesses future, SPA would like to see the screen industry pivot more energetically into an export driven market for Australian content enabled in part by global streaming services that have aggressively entered our territory. This disruption of traditional media creates threats to incumbent broadcast platforms that operate in this territory but great opportunities for our content and businesses given their global footprint. Never before has our industry had such an incredible opportunity to grow. But this needs to be done with thought and care for the long term sustainability of businesses, a distribution of opportunity across the country and importantly with the view of ensuring audiences can access quality Australian stories in the manner in which they have come to expect.

Nimble businesses that operate to produce content in all parts of Australia including regional Australia has real impact in local communities with jobs and dollars.

We recognise that there is a finite resource to assist the sector and generate return to our economy so we are keen to ensure that this is done for maximum effect. Building Australian content across the country with international investment not only creates unique properties for international markets but it provides jobs and skill development and career progression in Australia for the long term value of the sector and the public.

What is key to the sustainability of the screen industry is the creation and protection of intellectual property (IP) that is owned and exploited by Australian businesses – a common idea across our economy. This is the most efficient and effective area of investment of resources into our industry.

However, there are currently some regulatory impediments to this occurring.

Over the last period of government, we have seen cuts to various forms of stimulus that is used to attract international investment in our domestic Australian production sector. However we have seen increases to investments in attracting foreign investment into international content that is filmed in Australia.

In particular the Government topped up the 16.5% location offset with $140 million over four years to attract international productions to Australia. All support is great but this is beneficial to about 10% of the work force in the industry – people that work on the services other people's visions. For the benefit of our music friends here today – this is the equivalent of us wooing Beyonce to come to Australia with some great recording studios and sound engineers in Sydney to help her create her latest album and then see her return back to the US to sell it.

This strategy doesn't make sense if we aren't ensuring more aggressively that – and to continue the analogy - Australian artists can cut their own albums in our recording studios and that we can market and promote the finished goods from Australia.

While we support all businesses and are grateful for the investment our sector receives, at SPA we emphasise the need for development of the entrepreneurial end of the spectrum, which is about building and owning intellectual property ourselves and driving that content so that businesses can create and develop their own products and sell that content globally.

You also can't be jobless if you're not looking for a job and are in fact creating your own job and work for others. That is what we do - and it is in this area that a return to investment strategies needs prioritising through a number of different strategies.

The first is improving the Australian television production offset to attract greater international investment. Television is the dominant format and Australia is under-baked in terms of what is happening in other territories here. As a consequence, it's more attractive to create content for screen production in – say - New Zealand because it has a higher tax offset for television. We have been missing out on investment and export potential here for television product for some time.

Because of the $140million incentive from the Government, there is the anomaly of a higher offset for foreign television than there is for local television - encouraging our producers to make international content over Australian. That doesn't make sense to us given the priority we think we should be there for us – 'cut our own albums' and sell them to the world.

The second is content regulation which is the key to the Australian film and television industry. In 1961, before local content regulation, only one per cent of drama on Australian television was Australian. We now have content quotas on commercial broadcasters that deliver drama, documentaries and children's programming. At the moment we are in a tussle because t broadcasters are seeking to have those drama obligations watered down and the children's obligations removed. This would mean no Australian children's programming on commercial television and significantly less drama. We are arguing of course that these changes or arguments must be resisted.

We must also in turn though bring the regulatory model into the new age and look at the new players that are operating in our market. There are no obligations on streaming or subscription video on demand - SVOD - services to invest in local content in Australia. That means we are missing out on what is a huge investment of global dollars from international streaming services into Australian productions.

So to increase levels of Australian content in SVOD libraries and to support local industry we're recommending a percentage of revenue—ideally more than 10 per cent of revenue on these services—that's earned in Australia to be invested in certain genres of local content and a promotion obligation so that in big services, like Netflix, audiences can find the content easily. This is consistent with recent recommendations from inquiries from both the House of Representatives and Senate committees from the previous parliament. We estimate that a 10 per cent revenue obligation on just a couple of them – such as Netflix, Stan and Telstra TV would deliver over $100 million to the industry and an additional 4,000 jobs.

Looking at best practice, the European Union has recently introduced SVOD regulations along these lines. It provides structures for countries to capture a percentage of revenue as minimum expenditure obligations on local content and to ensure promotion and minimum percentages of European content in SVOD libraries. The percentage of revenue earnt that must be spent on local content has just been set at 16 per cent in France, for example.

The third area is fair contracting. The market for TV in Australia is an oligopsony, which is a form of market that providers buyers—broadcasters—with significant market power to the detriment of our producers, the sellers. As broadcasters come under pressure from Google and Facebook for advertising and audience eyeballs, this pressure is being amplified down the supply chain, and producers are suffering as a consequence. The deals are getting worse and global businesses contracting in this market will create more problems and limit the benefit of international investment if there isn’t fair contracting. The solution to an oligopsony is setting conditions for the exchange between buyers and sellers in terms of trade or codes of conduct.

Similar market failure exists in the grocery market, where two buyers—Coles and Woolworths—dictate terms to suppliers. I think that's probably a pattern in market structures in Australia that require the ACCC to intervene. For our case, looking internationally, the UK has terms of trade which benefit both producers and broadcasters. It's been the backbone of the creative industries, actually, because it's built businesses and allowed them to hold their IP, which has then built opportunities for jobs around those businesses. We seek similar regulation.

The UK government, we feel, understands the value of creative industries to the UK economy and the international investment and export opportunities that comes from that. The UK creative industries are growing twice as fast as the rest of the economy. In a time of austerity and political uncertainty with Brexit, it is doubling down on its UK production investments that have ranged from animation to children's content and goes on.

The UK – like many of our trading partners has a co-ordinated strategy for ther industry's international development. Australia does not – the work being the subject of multiple agencies and bodies and while there have been some attempts to bring many of the various agencies together to at least talk to each other, more needs to be done structurally if we have any chance of succeeding here.

To help this we have established a Screen Export Advisory Council made up of eminent Australians to create a bi-partisan approach to our industry's export opportunities and it is led by for trade commissioner and NSW Tourism Minister Bruce Baird AM and former Arts and Trade Minister Simon Crean. The Council is focused on:

- Increasing screen export revue;
- Increasing the number of markets providing export revenue;
- Increasing the number of co-production treaties and MOUs (Australia has only 12 compared to Canada's 60);
- Increasing the number of co-productions that are made; and

- Growing the skills and capacity of the industry to better take advantage of export opportunities.

At the heart of the film and television industry is storytelling, a necessary human experience. It is something that will survive through technological disruption, but we will need to get the policy settings and investment energies right now to capture the extensive export opportunities so that our storytellers keep telling stories for future generations. Thank you.