

Australia's Productivity Performance

Ausfilm Submission

1. Introduction

The submission first explains what Ausfilm does, then outlines the role of foreign production in Australia, the factors which attract such production and its impact on the screen and wider economy. The submission then argues that the productivity of the Australian screen production sector has been improving in recent years.

2. About Ausfilm

Ausfilm is a unique partnership between private industry and government. The partnership comprises Australia's federal and state governments, the major studio complexes, production service providers and leading post, digital visual effects and sound/music studios.

Ausfilm markets and promotes Australia's film and television production incentives (including the Australian Government's Screen Production Incentive Scheme of the Location Offset, Post Digital & Visual Effects (PDV) Offset and Producer Offsets and the various State government screen incentives); diverse locations; sound stages; post-production and visual effects companies; and award-winning filmmaking talent. Ausfilm is the gateway for international filmmakers looking to film, post and/or co-produce in Australia.

As a not-for-profit organisation Ausfilm is funded by subscription fees from its 62 members and by a grant from the Department of Transport, Regional Development, Infrastructure and Communications. Ausfilm's head offices are located in Sydney, with a second office in Los Angeles.

Ausfilm promotes the Australian Screen Production Incentive (ASPI) scheme (see Appendix 1 below) and the Official Co-production program internationally to major studios and to the independent producers who are interested in:

- Utilising the Location Offset to bring large budget productions to shoot in Australia;
- Using the Post-production and Digital Visual Effects Offset to undertake post-production and digital visual effects work in Australia;
- Working with Australian producers, writers and directors to develop Australian productions that access the Producer Offset;
- Partnering with an Australian producer to make an Official Co-production.

Ausfilm provides advice, recommendations and guidance to international producers and companies looking to film and utilise services in Australia. We do this through direct business meetings, international inbounds (locations and production services scouts) and hosting a range of international events to promote Australia's incentives and capabilities.

3. The Demand for Screen Content is Growing

There is a current boom in content production globally. An increasing demand from consumers for screen content combined with significant investment from international producers, broadcasters and streaming services has resulted in a dramatic rise in worldwide production of screen content. In 2019 there were 9,569 feature films produced world-wide, which set a new world record. Although this decreased to 7,171 in 2020, because of the pandemic it is still 26% higher than the number produced in 2009. In the USA in 2021 there were 559 scripted drama series commissioned, up from 266 in 2011.

As the data in Table 1 shows, consumer spending on entertainment is robust, even though theatrical exhibition revenue has been halved by the effect of the pandemic. New streaming services, such as Disney+ and Apple+, have grown substantially during the pandemic – Disney+ launched in November 2019 and now has more than 100 million subscribers worldwide.

Table 1: Global Theatrical and Home Entertainment Consumer Spending (\$US Billion)

	2017	2018	2019	2020	2021
Theatrical	41	42	42	12	21
Physical Home Entertainment	15	13	10	8	6
Digital Home Entertainment	29	38	45	61	72
Pay TV	234	236	230	228	228
Total	319	328	328	309	328

Source: MPAA 2021 Theme Report

Internationally, the demand for VFX services has also expanded in recent years. Consumer demand for high definition visual experiences, with engaging visual effects and realistic animation has led to films and television being produced with more animation and VFX shots.

4. Foreign Production in Australia –

In the 2018 Budget, the Government allocated \$140 million over four years to the Location Incentive Program which effectively provides an increase to the Location Offset rate from 16.5 per cent to 30 per cent for eligible large budget international productions that film in Australia from 1 July 2018. In 2020, in response to the pandemic, the Government added another \$400 million to the Location Incentive and extended the program to 2026/27. The result has been that in 2020/21 \$1.040 billion was spent on foreign film and television production in Australia.

The pipeline of production generated by the Location Incentive since then demonstrates that Australian businesses and Australian crews have experienced sustainable and consistent work, have been able to grow their businesses, employ more FTE's and invest significantly back into their businesses and training programs. And, as we discuss below, creates an environment in which private enterprise and government begin to consider investing in infrastructure.

This clearly shows the need for a permanent 30% Location Offset to capitalise on foreign direct investment. Australia could then take advantage of the growing demand for content globally and Australians could benefit from access to new jobs for the future that are resistant to automation, clean and green, agile and highly technically creative.

For example, a large budget studio production based on the Gold Coast in 2017 employed 2,142 people and spent a total of AU\$127 million in Australia, with expenditure on cast, crew and vendors

spread across the entire country. Just over 50% of that expenditure was on Australian businesses directly benefiting from this activity, with a quarter of that spent outside Queensland.

The scale of footloose production has also contributed to innovation and the development of world-class skills that have flow on effects to Australia's domestic production industry, making a significant contribution to the overall screen production ecology. This builds capacity in that it helps stimulate investment in physical production, such as increasing the number of sound stages and facilities, new digital technologies and software and advancements in drone camera technology (Australia is a world leader in this field and has created the lightest and most stable drone camera platform in the world, thanks to international investment). Critically, it also provides continuity of employment and services utilisation, as well as creating stronger linkages with the global audiovisual economy.

There are a number of reasons why footloose production figures in national and regional film policy including:

- It represents inward investment in the local economy;
- It provides a stimulant to economic development, not only in the audiovisual sector, but also in the economy as a whole, because spending flows out of the sector into related industries;
- It can provide development opportunities for jurisdictions with nascent film production industries;
- It provides continuity of employment and services utilisation;
- It exposes the industry to new production methods, particularly in the creation of large-budget and technically complex feature films;
- It creates high paying highly skilled jobs;
- It is capacity building in that it helps stimulate investment in physical production, such as sound stages, and technological infrastructure, such as new digital technologies; and
- It provides stronger linkages with the global audio-visual economy.
- It plays a pivotal role in raising Australia's global profile and is important for tourism and soft diplomacy efforts.

To attract this footloose production there are three basic conditions that need to be present:

- Physical infrastructure in the form of studio complexes and film service companies. Soundstages can be either purpose built or can be existing industrial space converted into a soundstage. The advantages of purpose-built studios are that they meet all the needs of contemporary production, including companies providing production and post-production support services. Australia has five studios that attract international production – Fox Studios Australia (Sydney), Village Roadshow Studios (Gold Coast), Docklands (Melbourne), Screen Queensland Studios (Brisbane) and Adelaide Studios (Adelaide).
- Skilled labour in the form of cast and, particularly, crew. Those jurisdictions that have a depth of crew talent are more cost effective because the footloose productions need only to bring key cast and some heads of department. Underpinning skilled labour is an investment in training and talent development. Australia has some of the best talent in the world in front of and behind the camera.
- Incentives in the form of tax credits or rebates are a key element in leveraging the competitive advantage a jurisdiction has in labour and infrastructure. The presence of incentives is critical, as is the level at which they are set to attract production. At present Australia's Location Offset at 16.5% is not globally competitive and is supplemented by the Location Incentive.

Other elements add to the attraction of a jurisdiction, such as suitable locations, favourable exchange rates, political and social stability, but if the above key elements are not in place these other elements are not sufficient to make a jurisdiction attractive to footloose production. When the above elements are all in place, a competitive incentive program can stimulate a continuing pipeline of production underpinning employment and skills development, creating a stable environment for long term investment in infrastructure.

5. Productivity

In screen production, there is a high degree of freelance or casual labour undertaken.

In organisational terms it means there are almost no permanent production units, instead there is a permanent network of skilled people (writers, actors, directors etc.) available to be used in the process of film and video production.

Despite this form of labour organisation the screen production sector has the skills, capability and culture to take up and apply new technology. For example, the sector has managed the transition to digital technology in both image capture and image manipulation, which started in the 1970s with the move to digital editing and continues today with developments in “virtual production”, which uses LED screens to create realistic locations in the studio.

In physical production. Australian companies pioneered the use of aerial photography. Australia’s XM2 developed what they believe was the world’s first 40kg drone capable of carrying a “crazy heavy” camera for the Queensland shoot of *Pirates of the Caribbean: Dead Men Tell No Tales* in 2015. On the back of this achievement the company has expanded international from its Melbourne headquarters to establish offices on the Gold Coast, and in Los Angeles, London, and Atlanta.

For the VFX sector in Australia its great reputation and award winning work is based on equal parts technology and creativity. The creative choices that have earned this reputation are made possible by technology and a teams of talented specialists who work alongside a vast number of artists.

Adelaide based company, Rising Sun Pictures developed CineSync, technology that allows users to view video in real time, in sync, anywhere in the world, and use drawing tools to point at elements in the frame, sketch new ideas and write text notes.

Advances in technology have also seen improvements to the way Animal Logic can test and communicate ideas during the filmmaking process. Early on in the production of Peter Rabbit it needed a lot of great innovation alongside creative thinking to find the best way to make a live-action hybrid film, bringing together great actors with iconic animated characters in one cohesive world.

The digitisation of the whole process of post-production has also greatly facilitated the ability to work remotely on projects that may have been shot elsewhere. For example, in 2020/21 Australian VFX companies attracted \$246 million of investment in their work on productions shot outside of Australia, which was a 48% increase in revenue from the previous financial year.

6. Skills Development

Skills development is an important element in productivity improvement. The Australian screen sector has experienced rapid and continued growth, with drama expenditure in Australia in the 2020/2021 financial year totalling \$1.914 billion, across both Australian and international drama, which was a record spend and nearly double the expenditure of the previous year.

Such rapid growth stretches the ability of the sector to meet the demand for its services in physical production, visual effects and digital animation. Recognising this, Ausfilm in 2020 commissioned

Olsberg SPI, a U.K. based creative industries consultancy specialising in the screen sector, to undertake a Production Infrastructure and Capacity Audit (PICA).

The PICA study for Australia was designed to assess below-the-line workforce (BTL) capacity, including an assessment of diversity and inclusion issues, skills gaps, physical production infrastructure and other relevant support services, in particular vocational training, and an overall production capacity assessment.

Australia's BTL workforce is at capacity for A-grade crew when there are simultaneous large international films in production. This is especially evident in specialised roles that are in demand for large international productions, unit production manager, production accountant, art director and first AD. There is little data around BTL workforce diversity, but the research suggests that it does not represent the demographic of Australia.

Crew capacity issues exist especially in technical roles which require both tertiary education and on-the-job experience, and in areas where there are gaps in the training. The report analysed 58 roles across 11 BTL production departments and identified ten roles with the largest capacity constraints, e.g. production accountants, line producers and first assistant directors.

To address this Ausfilm established the National BTL Workforce Capacity Working Group (WCWG) in late 2021. The Working Group's purpose is to address these sector wide concerns and provide a coordinated response by working with industry, government and education sector representatives, as well as international best practice, to address capacity constraints throughout Australia's BTL screen workforce and collaborate to identify short-, medium- and long-term initiatives to support capacity growth and upskilling for BTL talent.

At the end of 12 months, the WCWG will develop an inclusive national screen industry BTL development plan and framework, which will be published and made available for industry, education and government to access the group's recommendations identifying:

- what industry can do;
- additional partnerships between industry and education;
- what government can do; and
- what industry and government can do together.

In the VFX and digital animation sector, the increasing demand the services provided by Australian based companies is putting increasing pressure on the workforce. The VFX and animation sectors in Australia depend on the skilled migration program to develop their businesses and to meet the requirements of clients. While tertiary education and in house training programs are able to supply a stream of entry level employees, the migration program is needed to supply more senior and experienced artists, producers and supervisors. Skilled migration not only allows companies to service their clients and grow their businesses, but critically it also provides people with experience to train and upskill Australians.

7. Conclusion

The productivity of the Australian screen sector has demonstrated its talent and creativity to be innovative in both physical and VFX production over a sustained period of time. The sector is also addressing skills development as a strategy to underpin future growth, but Australia's skilled migration settings need to be fit for purpose and work alongside that are enabling the sector's growth . Given the level of investment required for both studio and PDV infrastructure development it is essential that governments support a stable market through a competitive and consistent

incentive regime that is predictable and long term. This will allow Australia to take full advantage of the ongoing growth in screen production worldwide.

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Appendix 1

Australian Screen Production Incentive Scheme

OFFSET		FORMAT	MINIMUM QAPE
LOCATION OFFSET	Rebate of 16.5% Qualifying Australian Production Expenditure (QAPE)	Feature films, telemovie or television mini-series or series	Productions must have a minimum spend of A\$15m of QAPE.
LOCATION INCENTIVE [\$545 million to 2026/27]	Merit assed grant of 13.5% of (QAPE) in addition to the Location Offset up to 30%	Feature films, telemovie or television mini-series or series	Productions must have a minimum spend of A\$15m of QAPE.
POST, DIGITAL, VISUAL EFFECTS PRODUCTION (PDV) OFFSET	Rebate of 30% qualifying post, digital and visual effects production (PDV) expenditure	Feature films, telemovie or television mini-series or series	The production must have a total PDV related QAPE of at least A\$500,000. The production does not need to be filmed in Australia.
40% PRODUCER OFFSET	Rebate at 40% of QAPE. Significant Australian Content test (SAC) applies.	Feature films	Productions must have a minimum spend of A\$500,000.
20% PRODUCER OFFSET	A tax-based incentive that provides a rebate at 20% of QAPE. Significant Australian Content (SAC) applies.	Television, documentary, other	Dependent on production format.